UNIVERSITY COLLEGE LIBRARY
NOTTINGHAM

Class Mark HD 9076 M6

Book Number 14 946

UNIVERSITY OF NOTTINGHAM
WITHDRAWN
FROM THE LIBRARY

SAPIENTIA URBS CONDITUR

The University College Library,
Nottingham.

60 0413618 6
WITHDRAWN
FROM THE LIBRARY

THE COÖPERATIVE PATTERN IN COTTON

THE MACMILLAN COMPANY
NEW YORK · BOSTON · CHICAGO · DALLAS
ATLANTA · SAN FRANCISCO

MACMILLAN & CO., LIMITED
LONDON · BOMBAY · CALCUTTA
MELBOURNE

THE MACMILLAN COMPANY
OF CANADA, LIMITED
TORONTO

The Coöperative Pattern in Cotton

BY

ROBERT HARGROVE MONTGOMERY, Ph.D.

PROFESSOR OF ECONOMICS, UNIVERSITY OF TEXAS

UNIVERSITY COLLEGE
NOTTINGHAM

New York

THE MACMILLAN COMPANY

1929

COPYRIGHT, 1929,
BY THE MACMILLAN COMPANY.

Set up and printed.
Published February, 1929.

All rights reserved, including the right of reproduction in whole or in part in any form.

Printed in the United States of America by
J. J. LITTLE AND IVES COMPANY, NEW YORK

TO

G. E. M.

IN RECOGNITION OF
FIVE YEARS OF PATIENCE—
AND IMPATIENCE—IN EXACTLY THE
RIGHT PROPORTION TO MAKE
THE WRITING OF THIS
BOOK ADVISABLE—
AND PLEASANT

ACKNOWLEDGMENTS

THIS study has been in progress seven years. It was originally suggested by the late Professor Arthur J. Boynton of the University of Kansas. As first planned it was to cover the whole field of cotton marketing. Before it had progressed beyond the embryonic stage the large scale Coöperatives entered the field with their avowed purpose of reorganizing the entire cotton marketing machinery. The plan of study was revised; and for six years I have been absorbed in the fascinating pastime of observing the curious ways of an economic revolution. During that time assistance of many kinds has come from many sources. Adequate appreciation for each individual contribution is impossible here, but I should like to express my thanks for the more substantial ones.

For timely and liberal financial assistance I am indebted to two sources. Mr. J. J. Walden and Mr. Roy J. Beard, of Fort Worth, provided the necessary funds for a year of uninterrupted study in the field. The Laura Spellman Rockefeller Memorial Grant to the University of Texas made possible a half year of leisure for the analysis of data, and the preparation of manuscript.

In the collection and selection of material, and in the planning and writing of this book my wife, Gladyse Montgomery, has rendered patient, intelligent, and invaluable assistance. Five years of stimulating argument on subject matter, analysis, and style of presentation, cannot receive adequate acknowledgment within the limits of this simple statement.

Mr. John T. Orr, President of the Texas Farm Bureau

Cotton Association, has made available every bit of information collected by the headquarters office. He has placed no restrictions whatever upon my use of this material. Further, he has allowed me to sit with the Board of Directors in all meetings, both open and executive. And, he has discussed with me the subject matter of practically every chapter of this book. It is no exaggeration to say that this study could not have been made without the splendid coöperation of Mr. Orr.

Members of the official staff have rendered valuable assistance in collecting data, and in explaining the work of their several departments. For this assistance I am indebted to Mr. Harry Williams, and his secretary Miss Myers, Mr. A. H. Blackshear, Mr. E. H. Linsteader, Mr. C. K. Bullard, Mr. L. O. Hosek, Mr. M. E. Hays, Mr. O. M. Lowry, Mr. W. R. Squires, Mr. T. M. Edwards, and Mr. B. D. Armstrong.

The Board of Directors has extended every courtesy in its power. Several members have made suggestions and criticisms of great value to me. Discussions with Mr. W. W. Pitts, Mr. Richard Wischkaemper, Mr. Lynn Stokes, and Mr. W. D. Farris have been especially helpful.

For careful and able criticism, and for much valuable aid in the selection and interpretation of material I am deeply indebted to Mr. C. O. Moser, President and General Manager of the American Cotton Growers Exchange, and to Mr. L. F. McKay, for many years Director of Public Relations.

Mr. R. H. Ellsworth, Mr. A. W. McKay, and Mr. George O. Gatlin of the Division of Coöperative Marketing, United States Department of Agriculture, have made available several excellent studies on various subjects treated in this book.

Dr. W. M. W. Splawn, while a member of the Texas Railroad Commission, directed my study of the cotton freight rate schedules. While President of the University

of Texas, he assisted me in making contacts with the members of the cotton trade which have proved invaluable.

For much cogent advice, and keen analyses of certain phases of my problem I am indebted to Professor Max S. Handman of the Economics Department, University of Texas.

The technical organization of this book, and some of the writing, was done under the guidance of Dr. Leverett S. Lyon, of the Robert Brookings Graduate School, of Washington, D. C. For his trenchant criticisms and careful direction I am deeply grateful.

For the most stimulating intellectual contact of my experience, for a difficult task made pleasant by kindly humor, for more "leads" than one could follow up in a long and industrious lifetime; for enthusiasm—and encouragement—and criticism, I bow to Mr. Walton H. Hamilton.

And, finally, I wish to acknowledge my debt to that rare group, The Brookings Community of 1925-26. Of that group Mr. J. P. Watson, Mr. J. C. White, and Mr. Robin Hood, of Texas, subjected every proposal contained in this book to a most searching criticism. For that I am profoundly grateful.

R. H. Montgomery,
Austin, Texas,
March 1, 1928.

FOREWORD

The organization of giant coöperative associations for marketing our major agricultural staples is one of the striking economic developments of the past decade. The use of coöperative devices is not new to the American farmer. The Grange, the Alliance, the Wheel, the Farmers Union, and many more restricted organizations have from time to time given a new impetus to the use of one or another of these devices. However, these have usually taken the form of small, local associations: cheese factories, creameries, local elevators, bull associations, little fruit, poultry, or vegetable selling agencies. The gigantic, centralized association—counting its members in ten thousands and its annual business in ten millions—organized with the avowed purpose of securing a substantial monopoly position in the market—is largely an expression of post-war agrarian discontent.

At the outbreak of the War there were a few hundred small coöperatives, only four of which had more than local significance. Today there are over fifteen thousand of these organizations, seventy-four of which are rated by the United States Department of Agriculture as of the "centralized type." Two million seven hundred thousand farmers are members, and the business transacted last year amounted to $2,250,000,000—or nearly one fifth the total farm business in the United States.

Ten years ago the nationally-known supporters of large scale coöperation could be told in one breath: a few self-seeking politicians; a half-dozen putative experts in the Department of Agriculture; a handful of self-ap-

pointed agrarian leaders—editors of farm journals, and secretaries of clubs for the salvation of the farmer; and an occasional economist in one of our agricultural colleges. On January 12, 1926, the president of an organization representing over a half million farmer coöperators began his keynote speech to the annual convention of that organization "The leader of the agricultural coöperative marketing movement sits in the White House." While this statement is scarcely to be taken seriously, still it is common notoriety that it would be little short of political suicide to kick against the pricks in the agricultural sections of America today. A count of those political leaders in the central west, south, and far west, who give at least nominal support to the new program, would serve passably for a Who's Who of their group. Nor is this the most significant body of recent converts. No economic program in the long and colorful history of American agriculture has had such widespread, intelligent, and effectual support from economists, journalists, technological experts, and agrarian leaders.

Nor has the Cotton Kingdom, notoriously conservative in use and wont, escaped the virus. In 1915, the coöperative marketing of cotton was a pleasant and harmless topic for farm journal editorials and Friday night debating societies. Ten years later three hundred thousand cotton farmers had signed "iron-clad" contracts binding them to sell coöperatively all their cotton, over a period of years. Last year these farmers delivered to their associations well over $100,000,000 worth of cotton.

For a long time there has been discontent with the traditional system of marketing cotton. This discontent has sporadically exceeded the bounds of tolerance and expressed itself in more or less violent attempts to seize control of the whole marketing machinery. At least a half-dozen such aberrations are written into the records of the past half-century. All have been futile. In the first place,

there has been no adequate realization of the intricate ramifications of the problem.

Second, these movements have all too often been directed by pettifogging politicians, and callow farm leaders. Occasionally their direction has fallen to business men whose interests run counter to those of the growers. Consequently, the whole venture has usually been junked after a few costly and misdirected experiments, or after an ill advised pursuit of some political will-o'-the-wisp.

Third, few of these self-appointed agrarian leaders have appreciated the manifold intricacies of the cotton trade. They have had little, or no experience with those detailed minutiæ having to do with market and crop forecasts, trade conditions, insurance rates, shipping facilities, warehousing methods, grading and classing, financing, arbitration of claims, and the vast body of customs of the trade. The cotton trade is old, as such things run in the modern world. Its lines lie deep, and anyone who would cut across them must be wary of his steps.

Fourth, and probably most important, is the psychological background of the cotton farmer. He is, by long accustomed use, a confirmed individualist. "Self-help" expresses his characteristic attitude. So far as he has had any experience with common action it has been of a simple—usually non-pecuniary—neighborhood type. Heretofore this has left him quite incapable of organizing his business on a scale to cope with problems which the modern machine technology and corporate business organization have so inconsiderately thrust upon him.

So the Grange, the Wheel, the Alliance, the Farmers Union, the Southern Cotton Association, and the Southern States Cotton Corporation (to list only a few of the more ambitious organizations) has each in turn offered its panacea, and ultimately succumbed to one or another, or several, of these difficulties. The net result to

the cotton farmer has been some costly experience of dubious value, and much weariness of the flesh.

During the second decade of this century a fortuitous conjunction of events changed the whole complexion of the problem. First among these, in significance, was the World War. When the war burst upon Europe in August, 1914, it marked the end of a fourteen year period of slow, but appreciable, improvement in the economic position of the American cotton grower. The farm price of Middling cotton had slowly advanced from five or six cents per pound at the end of last century, to something over twice that in 1914. The immediate effect of the war was a disastrous debacle of prices. For the first time in half a century many farmers found it impossible to sell cotton at any price. This situation was accentuated by the largest crop on record, 16,134,130 bales. It took approximately two years for this first effect of the war to run its course. Then began a four-year period of amazing and unprecedented prosperity. Production was maintained at a moderately high level, approximately 12,000,000 bales annually. The price advanced well ahead of the general price level. For the first time since the 'fifties the cotton grower found himself in a strategic position. Of course, land prices and standards of living—principally in the small towns—advanced sharply to take up the slack.

Then, with the end of the business debauch of 1920, came the crash. The cotton grower suffered a sudden and terrible reverse. The market for the 1920 cotton crop opened at forty cents a pound and closed at ten! Not since the Civil War had such a catastrophe befallen the cotton grower.

But the war had several other effects on the cotton farmer which may prove to be quite as significant as these violent and unpredictable financial revulsions. In the first place, along with half the civilized world, he had been engaged in a stupendous common enterprise. His

experiential horizon had been immeasurably expanded Sons in the army, daughters in government work; newspapers; innumerable "drives"; political and patriotic speeches; and all the vast and complicated machinery of war propaganda had served this purpose. His traditional individualism was subjected to a severe and unfamiliar ordeal. It came out of the experience somewhat frayed as to edges and noticeably achromatic as to tone.

Then, too, the war taught us the all but irresistible power of a well articulated, and properly directed propaganda.

Other forces were at work during this same period which were destined to give direction, scope, and tone to the impending agrarian discontent. Between 1910 and 1920 the United States Department of Agriculture, with the assistance of certain state departments of agriculture and state agricultural colleges, made several exhaustive studies of the traditional system of marketing cotton in the primary markets of the South. The conditions disclosed by these investigations are difficult to explain by recourse to the dogma of current economic philosophy—if anyone should care to indulge in that innocuous but nugatory pastime. These conditions furnished the leaders of the new coöperative movement some of their most trenchant arguments. Furthermore, they laid the basis for a different attack on the whole problem.

Still another circumstance of some import in the march of events was the growth of a new crop of agrarian leaders. These men had served an apprenticeship vastly different from that of their predecessors. Some of them were graduates of the county agent system, and had learned much of the complex problems of cotton growing and marketing, and something of the ideology of the grower. Others had gained valuable experience as officers of the constantly expanding number of coöperative marketing associations. Also, it is worthy of note that our agricul-

tural colleges were becoming interested in agriculture—as a business. Departments of Agricultural Economics were sporadically appearing, even in some of our best colleges. These were training an ever-increasing number of young men in the approved business technique. Some of the most notable leaders of the new movement were of this class. In much the same way the United States Department of Agriculture, which had greatly extended its range of activities, was serving as a training school for a considerable group of astute agricultural leaders.

One other event must be mentioned in this connection. Large scale marketing coöperatives were experiencing notable success in handling certain agricultural commodities. The stories of these were told and retold across the Cotton Kingdom. To this must be added the quite significant fact that a well-rounded, logical, and simple philosophy of coöperative marketing was being formulated. A set of devices—"Fundamental Principles"—for controlling and operating a coöperative association was evolving.

So we may say that the year 1920 shows an adequate *causa causans* for a serious agricultural discontent; by long and honorable tradition this discontent would be expressed in some sort of attack on the marketing system; the glaring defects of the old system had been conclusively and authoritatively pointed out; the traditional provincialism and individualism of the cotton grower had been noticeably mitigated by the experiences of war; commodity coöperative marketing had acquired a vogue, developed a philosophy of purpose, and formulated a plan of action; the technique of propaganda had become one of the fine arts; and a group of forceful and resolute leaders was at hand, some of whom were astute enough to take the current when it served.

CONTENTS

CHAPTER I

PAGE

The Case Against the Traditional System . . . 1

CHAPTER II

The Montgomery Convention and the Sapiro Plan 43

CHAPTER III

The Committee of 21, and the Documents 75

CHAPTER IV

The Organization Campaign 102

CHAPTER V

First Year of Operation 129

CHAPTER VI

Field Service 150

CHAPTER VII

Financial Problems 171

CHAPTER VIII

Marketing Functions and Price Policies 194

CHAPTER IX

The Contract in Law 220

CHAPTER X

PAGE

Control 237

CHAPTER XI

The Case for Coöperation 249

Appendix 277

THE COÖPERATIVE PATTERN IN COTTON

The Coöperative Pattern in Cotton

CHAPTER I

THE CASE AGAINST THE TRADITIONAL SYSTEM

THE marketing of cotton under the system in general use in the South for the past fifty years was a simple matter so far as the average farmer was concerned. This system had its inception in the chaotic break-up of the old economic order in post-Civil War years. It is an integral part of the new order. The old pre-war system of marketing through port and mill-town factors and commission merchants passed out along with the plantation system with its large scale production by slave labor, plantation gins, plantation stores, and centralized large-unit production credit machinery. The new marketing system, with its amazing complexity, when all its devices and ramifications are considered, came in with the other devices of the new economic and social order: the small farm production unit; the little country town with its bank, hardware and grocery stores, independent gin company, and cotton yard; and the various institutions for advancing production credit necessitated by these momentous changes in the whole economic structure of the Cotton Kingdom.

Furthermore, this new marketing machinery has had the sanction of the dominant economic ideology of its day. It has fit with nicety into the system of free enterprise, self-help, and *caveat emptor*—except that in this case it has consistently meant *caveat vendor*. At least this

was true fifty years ago. For the past several years there has been a growing suspicion, on the part of the more intelligent farmers, that something is decidedly "out of kilter."

Any adequate evaluation of this marketing arrangement would necessitate a consideration of the whole scheme of arrangements which the anthropologist would call the culture scheme of the South. But this would carry us too far afield. It is the purpose of this essay to indicate the bases of the growing discontent of the farmer with this set of marketing devices. And for this purpose we need look no further than to observe what he sees and thinks he sees in the system.

The first step in the process of taking the cotton from the field to the factory is the picking, or harvesting, of the product. The average stalk is from two to four feet in height, and has from five to thirty bolls on it. The field is usually gone over two or three times in the process of gathering the crop. In but a few fortunate sections may the entire crop be harvested in one operation. The open bolls expose the lint to risk of damage from bad weather. In some years an immense amount of damage is done by unfavorable weather conditions during the picking season. Consequently, when there are four or five bolls to the stalk open, harvesting begins.

This harvesting is all done by hand, the drawing of the fiber from each separate boll being a distinct process. Although many attempts have been made to perfect machinery to perform this work, to the present time none has been successful. A successful mechanical device for performing this work would cause profound changes in the industry. The picking is a slow, but not difficult, type of work, usually performed by the farmer and his family, even including the small children six or seven years of age. In the event of an unusually large crop, or in the event of the family being very small, laborers must be hired. The

cost of this hired labor is commonly "a dollar a hundred," that is, a cent per pound for picking the seed cotton, though of course this varies with the amount of cotton open, the size of the crop, the number of laborers available, condition of the weather, and the cost of living. In spite of the fact that it takes from eighty to a hundred bolls to make a pound a good picker can pick from two to four hundred pounds per day, under favorable conditions.

When the cotton is picked, it is put into a wagon with high sideboards. The average farm wagon with four foot sideboards will hold just a bale of seed cotton. In some of the better sections of the belt "two-bale" wagons are being utilized. This seed cotton is then taken to the gin where the lint is separated from the seed and baled. Fifteen hundred pounds of seed cotton will usually give a turnout of five hundred pounds of lint and a thousand pounds of seed. Practically all of the gins are owned by commercial gin companies, or by individuals who are not directly interested in the growing of cotton. The price charged for ginning varies greatly in different localities, and for different types of cotton, but it usually varies between 30¢ and 50¢ per hundred pounds of seed cotton, or from $4.50 to $7.50 per bale.

Occasionally the cotton, either in the seed, or after ginning, is sold to the ginner; but this is very rare in Texas. Much more often the seed are sold either to the ginner or to some buyer who takes possession at the gin. Very few of the farms of Texas are equipped to store seed in any large quantity. Not so many years ago the seed were given regularly to the ginner in payment for the ginning; but they have become much more valuable during the last fifteen years, the price today ranging from $10.00 to $20.00 per bale.

A few Texas farmers have all their cotton picked and ginned before they begin selling, but this is rarely the case. The more common practice is for the farmer to load

his cotton on a wagon, as soon as he has enough ginned to make a load—three or four bales—and to take it to town. These small country towns are the great primary markets of the State. So far as the farmer is concerned, his local town is "the cotton market."

When he reaches town, the farmer drives to the square or to the cotton yard where he meets the buyers. These buyers are of many kinds, but in general they fall into three large categories. There is, first, the local buyer. He may also be the local hardware or grocery merchant, or even some member of a local banking firm. In either case the question of liquidating debts becomes inextricably interwoven with the process of marketing the cotton. On the other hand the local buyer may be exclusively interested in buying cotton; in which case his income depends upon his ability to buy at prices which will yield him a profit when he resells to the larger merchants in the more central markets.

Second, there is the buyer sent out by the larger firms in the central markets, or at the ports. This type is apparently increasing in the Texas markets. He is given his buying limits by phone from the central office each morning. He may be a direct representative of one of the great cotton firms having their headquarters in the large central markets like Houston and New Orleans; or he may be an agent for some smaller firm in the large interior markets like Austin, Dallas, or Waco. These minor firms buy in the small primary markets, and either assemble their cotton into carload lots, ship to the central markets, and there resell to the larger merchants; or store it in the local warehouses from which it will be later sold to other merchants, or to a mill representative.

A third type of buyer is the direct representative of a cotton mill. Undoubtedly there are very few such in the primary markets of Texas. The mills usually prefer to buy from some merchant who has assembled his cot-

ton into even running lots as to grade, staple, and character. In this way they are relieved of much of the necessity of buying a lot of cotton which they cannot use on their spindles, and which they must resell to some other merchant.

So, when the farmer arrives in town with his three bales of cotton he finds one or more of these types of buyers ready to buy. One of the most interesting features of the whole cotton trade is the fact that there is always some sort of a market for cotton: it is the "cash crop" par excellence. Of course the farmer may be under some obligation, either actual or implied, to sell his cotton to a certain buyer. For instance, the merchant who had supplied him a credit account during the growing season, or the local banker from whom he had secured production credit may exercise such a claim. But this is not true in a majority of cases. Usually the cotton is "sold at auction." One or more of the buyers will sample the cotton and make a bid expressed in cents per pound. The sampling is done by cutting a hole about twelve inches long in the bagging, or cloth covering of the bale, and pulling out from eight to sixteen ounces of the lint. The buyer then "grades" this sample.

The art of grading cotton has been developing for over a century. Many methods of grading have been employed in the various markets of the world, and almost innumerable designations of the various grades and types have been coined. This has led to a never-ending round of misunderstandings, bickerings, accusations of unfairness, compromises, arbitrations, lawsuits, and general dissatisfaction with the whole system, or lack of system. Finally, in 1923, aften ten years of legislative muddling, the United States Government, by the Universal Standards Act, established a set of nine grades for American, upland, white cotton. These grades merely take into account the "looks" of the lint. Such things as the bright-

ness of the sample, and the amount of foreign matter, as dirt, leaves, pieces of bolls, particles of seed in the cotton determine its grade. These cotton standards, now in general use throughout the world, recognize nine grades, each of which is designated by a number and a name. From the best to the poorest these are as follows:

I or Middling Fair	VI or Strict Low Middling
II or Strict Good Middling	VII or Low Middling
III or Good Middling	VIII or Strict Good Ordinary
IV or Strict Middling	IX or Good Ordinary
V or Middling	

The length of the cotton fiber, or the "staple," and the quality of the fiber are quite as important in determining the spinning value of cotton as is its grade. However, these are very rarely taken into consideration by the buyers in the primary markets. Certain large sections of the cotton belt have the reputation of producing fiber of a certain staple length and of a certain quality. The merchants in these areas buy on the assumption that all cotton offered is of this general type.

Now, let us return to the bid made to the farmer for his cotton. There are so many factors affecting the bid that will be made that it is quite useless to attempt any general statements concerning it. Of course, we should expect the grade of the cotton, and the price being paid for that grade in the central markets, to have something to do with the bid made. Undoubtedly it has. But if the buyer is a local grocery merchant who has sold the farmer his groceries on credit, and who has a mortgage on the cotton, then there enter into the process a whole group of disturbing factors. The bid may be affected by the amount of the debt; the amount of cotton the farmer has to sell; the farmer's reputation as a good, or a poor, "moral risk"; the necessity on the part of the merchant to liquidate the debt in order to meet his own obliga-

tions; the terms of the mortgage, or crop lien; the desire of the merchant to retain the good will of the farmer; the ease with which the merchant can secure credit to carry on his own operations; the tone of the cotton market; the speculative bent of the merchant; and the fraternal, friendly, or family relations existing between the merchant and the farmer—to name only a few that the writer has seen operate in specific instances. If the bid is made by the agent of a mill then it will certainly be affected by the tone of the central markets; the quality of cotton used by his mill; the amount of that type which the present crop will show; the amount of stock his mill wishes to secure during the marketing season; the attitude of his company toward speculation; and the freight rates and other carrying costs to the mill. If the bidder is the representative of a large firm his bid will be limited by the orders he has received from headquarters. In any case "A cotton buyer cannot be expected to pay more for cotton than the price which will buy it." [1]

Of course, the question will arise immediately as to whether the bids of all the buyers will not have to be the same in any given market, on any given date, since the principle of Free Competition will operate. May we reserve judgment on this important question until we have considered the facts of the case? The answer, insofar as the present writer is able to give an answer is to be found in the remaining pages of this chapter.

When the farmer has secured one or more bids on his cotton, he may sell it. If he does not, he can haul it back home and pile it in the yard to be deteriorated slowly by the weather; or if he is fortunate enough to have access to a warehouse, he may store it until such time as he can get a more satisfactory price for it, or until he has to sell to satisfy his creditors. Of course, as a general rule

[1] Circular 92. Extension Division, College of Agriculture, University of Arkansas, p. 10.

he sells. In the first place, to hold it for a better price is a mere gamble, as he has no intelligible information on which to forecast the future trend of the market. And it is a gamble that costs him money. Storage charges, insurance, and further interest on his loans must be charged off if he puts it in a warehouse; and if he does not put it in a warehouse he stands to lose even more from "country damage." So he sells it. At least approximately seventy per cent of the farmers of Texas who were not members of coöperatives sold their cotton during the picking season last year. This is not written with any idea of condemning the sale of cotton during the picking season, but merely to describe the marketing process.

We may say, then, that this traditional system of marketing cotton is a very simple one for the farmer. This, of course, merely means that all those delicate and intricate functions having to do with such things as market risks, storage, transportation to the mill, carrying credit, and classing the cotton have been relegated to certain agencies beyond the control, or even the knowledge, of the farmer. It might be suggested at the outset that some of the evils which have grown up within this system may be traceable to this very fact of over-simplification. This is merely another way of saying that the farmer may be paying too much for the services performed by the various agencies which have gradually assumed the multifarious functions involved in carrying cotton from gin to mill.

What the farmer is interested in is the best possible price for his product. What he wants from all this marketing machinery is the assurance that he will get just that. He has never consciously made any serious attempt to organize this machinery with that end in view, because he has always been told that competition would achieve the desired end. Consequently, whenever he has expressed dissatisfaction with the scheme of arrange-

ments, by which he is relieved of his product at a price which permits him to enjoy so few of the good things of life, this expression has run in terms of inadequate or restrained competition. He has never questioned the benevolent dogma of the dominant economic philosophy. If only some method could be devised which would prevent people meddling with competition, the situation would take care of itself. If prices fluctuated to the detriment of the farmer, it was proof positive that somebody had dropped a monkey-wrench into the machinery.

But the United States Department of Agriculture, after exhaustive studies extending over the whole cotton area and over a period of ten years, assured us that there is no restriction of competition in the primary markets; and the Federal Trade Commission, after a two-year investigation of the central markets, failed to find any evidence of such restriction there. So we may assume that here we have an industry left to a free play of the forces of competition. At least this is more nearly true of the cotton marketing industry than of any other of its magnitude in the modern world. Here, if anywhere in the world of today, we should expect to find all those advantages which inhere in a competitive system. A statement of these advantages is necessary if we are to be able to determine whether the marketing devices which have grown up under this system have actually given us what we have a right to expect of them.

Interpreting the laws of the dominant economic philosophy of the past century in terms of the cotton marketing industry, it would appear that we have a right to expect Free Competition to give us the following results:

(1) The price of cotton will be determined by its marginal vendibility, or, as more commonly expressed, by supply and demand.

(2) The prices for identical kinds of cotton in a given market at a given time will be the same.

(3) The differentials in price between various grades and types of cotton in a given market at a given time will be determined by their relative marginal utility.

(4) The differentials in price between any two markets will be limited by the cost of carrying cotton from one to the other.

(5) There will be a constant urge to improvement in technique throughout the whole industry. If any merchant fails to adopt the most efficient machinery and methods for handling his phase of the business, he will be eliminated promptly by the competition of his more progressive rivals.

(6) Profits in the industry will "tend to a minimum." If any merchant attempts to charge more than the normal rate of profit in the industry for the service he is performing, some other merchant will underbid him, and so drive his profits down, or drive him out of the business. In the same way the potential and actual competition of capital and business ability from other lines of industry will keep the profits of this one in line with all others.

Of course, the same forces will assure constant improvement in the technique of farming itself. Those farmers who employ the most efficient technique will drive their less efficient neighbors off the land.

In short, enlightened self-interest plus desire for profits plus freedom of enterprise would assure constant improvement in technical processes, minimum profits, maximum prices, and equality of prices as between different markets and different qualities of cotton, due consideration being made for carrying costs between these markets, and for the relative spinning values of these various qualities of cotton. These are the conclusions derivable from the dogma of the economic philosophy of

the past century; and they form the basis for the present organization of the industry.

Now suppose we examine this traditional system of marketing cotton in actual operation and see whether it secured the results which we have been led to expect of it. Fortunately for our evidence we do not have to depend upon the biased testimony of either the farmers, the buyers, or anyone else. The United States Department of Agriculture, together with certain state departments of agriculture, and state agricultural colleges, has made several careful studies involving exhaustive investigations of the actual results of the traditional system of marketing cotton in the South.

In 1912-13 the United States Department of Agriculture made a careful and illuminating study of the primary cotton market conditions in Oklahoma. During the selling season agents of the department went into practically every primary cotton market in the State securing data for the study. In this way 103 towns were visited, and 3,250 bales of cotton were sampled. All the market information was secured concerning each bale sampled. In this way accurate information concerning the grade, staple, market, date of sale, and price paid for each bale was secured. The results of this investigation were tabulated by Wells A. Sherman, Assistant in Market Surveys; Fred Taylor, Cotton Technologist; and Charles J. Brand, Chief, Office of Markets, and published as Bulletin number 36 of the United States Department of Agriculture.

The following year the Department initiated another investigation, to cover the whole cotton belt, in order to determine whether the conditions prevailing in Oklahoma were local or widespread. In this investigation the Department covered the whole South in much the same manner that had been followed in Oklahoma. However, this investigation not only covered the whole territory; it also secured much more adequate data on certain of the

questions raised by the Oklahoma investigation. Aside from its general nature, its chief interest in this connection lies in the fact that a careful analysis was made of the correlation between primary market prices and qualities of cotton; a detail which was not covered by the former investigation.

In 1918-19 the United States Department of Agriculture, in coöperation with the Extension Division, College of Agriculture, of the University of Arkansas, undertook an investigation of cotton marketing conditions in the primary markets of Arkansas. This investigation was much more intensive than either of the others. During the marketing season a total of 75,600 bales of cotton were classed, and a detailed record of 52,072 was secured. However, in this investigation the problem was approached from an entirely different angle. In this case the cotton was graded and stapled before it was sold, and the information concerning the grade, staple, and character of the cotton was given to the farmers. When this cotton was sold a record was made of the grade, staple, and character and price of each bale, and the price received in the same market on the same date for identical cotton by farmers who did not know the class of their own cotton. In this way a statistically accurate analysis was obtained of the value to the farmer in knowing the class of his cotton when selling it.

The results of these three studies disclose conditions that might well be astounding to any serious investigator. For convenience the more significant of the conditions disclosed by these investigations may be grouped under six heads: (1) Wide variations in prices paid for Middling cotton in the same market on the same date; (2) Undue penalizing of the lower grades; (3) Insufficient premiums for better grades, staples, and qualities; (4) Unfair differentials in price between the Eastern and the Western section of the belt; (5) Advantages gained through the

farmer knowing the exact grade, staple, and quality of his cotton; and (6) Continuous and complete failure of competition in securing a fair price to the farmer for his cotton. In the light of the data secured by these investigations each of these conditions will be considered in detail, and we may discover the reason for the statement by the investigators that the conditions revealed are as "great a surprise to the writers as they will be to the cotton interests themselves."

1. Wide Variations in Prices Paid for Middling Cotton in Same Market on Same Date

The investigators received their first surprise when they tabulated the data concerning the prices paid for identical bales of cotton in the same market on the same date. The wide variations in prices under those conditions simply could not exist. The political economists had been emphasizing that very fact for the past century. Our whole system of institutionalized ideas, handed down from the Fathers, is based on it. A competitive market to which all buyers and sellers have free and unencumbered access will result not only in a fair price to all sellers, but in the same price to all sellers of the same article. There is no doubt about it. Every school boy knows that. And yet, here are data from 103 very real markets in the quite real State of Oklahoma in the year of Our Lord 1912 which at least give some room for Mr. Saunder's "good healthy passel of suspicion." The table on page 14 would seem to indicate that something was radically out of sorts with the device called Free Competition, upon which we were wont to cast all our problems of price relationships.

A careful study of this table and the still more striking ones on pages 16 and 19 "must give us pause." Here are shown the variations in prices for identical bales of

cotton in a given market on a given day. Let it be remembered that all these bales were of identical staple, and of Middling grade, the best known grade of the cotton trade, and that upon which all daily quotations are based and the daily purchasing limits set. Furthermore, these variations were developed by the random sampling of an aver-

TABLE I

VARIATIONS IN PRICE OF MIDDLING COTTON IN CERTAIN OKLAHOMA TOWNS (1912)

Place	Date	Price of Bale No. 1 Reduced to 500 Lbs.	Price of Bale No. 2 Reduced to 500 Lbs.	Range in Price	Number of Bales Sampled
Ryan	Oct. 26	$51.25	$54.58	$3.33	14
Norman	Nov. 4	55.00	57.50	2.50	11
Terrall	Nov. 4	55.80	59.50	3.70	5
Mountain Park	Nov. 4	56.25	59.00	2.75	4
Caddo	Nov. 5	55.00	59.38	4.38	4
Erick	Nov. 6	52.00	58.00	6.00	6
Luther	Nov. 7	53.75	56.25	2.50	4
Terrall	Nov. 9	56.25	59.50	3.25	7
Bennington	Nov. 13	56.25	61.85	5.60	5
Terrall	Nov. 14	57.00	59.50	2.50	4
Mountain Park	Nov. 14	53.54	58.25	4.71	7
Arcadia	Nov. 16	55.50	59.50	4.00	4
Marietta	Nov. 16	57.50	60.00	2.50	4
Mountain Park	Nov. 18	50.25	56.26	6.00	5
Marietta	Nov. 23	59.38	62.50	3.12	4
Snyder	Nov. 27	60.00	62.50	2.50	7

age of less than six bales in each market. In two cases only were more than ten bales sampled in any one market. In most of these markets from 20 to 200 bales of cotton were being sold daily. The investigators say, "The chances are very remote that we happened in any particular case to secure data upon either the highest or the lowest price paid. It is with the utmost confidence, then, that we state that the range in price here shown is very much less than that which actually occurs for the same grade of cotton the same day in most of the primary mar-

kets of Oklahoma." [2] This statement of the investigators is indubitably borne out by the much greater variations shown in the more comprehensive table on page 16.

This investigation, then, taking into account only four or five bales of the best known grade of cotton selected at random indicates a common variation in price of from 50 points per pound to 120 points. Furthermore, this condition was not confined to any section of the territory nor to any particular market, nor to any part of the selling season; it was apparently quite general. In considering the conditions indicated by this statistical sample, the investigators conclude: "It is almost appalling to consider the injustice that must be done in the aggregate."

Table II (page 16) shows in still more striking form, and for the whole cotton belt, the same conditions which the above table shows to exist in Oklahoma. In this second investigation a much larger territory was covered, and also a greater number of bales was graded and classed in each market. In the last column of this table due allowance is made for the difference in staples of the different bales classed. In determining the difference in price that would have been indicated had the lower price bale been of the same staple length as the higher price one, I have used the staple price differentials used and approved by the investigators themselves. All bales in this table were of Middling grade. Reduced to the same staple, then, we find variations in prices for identical bales of cotton in the same market on the same day ranging all the way from $3.75 to $22.45. Furthermore, this condition is shown to have existed throughout the whole cotton belt. The most exaggerated cases, as was to have been expected, are found in the western end of the belt, in Texas and Oklahoma. In Jewett, Texas, we find two identical bales of cotton sold on November 7, 1913, for a

[2] Bulletin 36, United States Department of Agriculture, p. 8.

TABLE II

VARIATIONS IN THE PRICE OF MIDDLING COTTON IN THE SAME MANNER, ON THE SAME DAY, IN DIFFERENT STATES OF THE COTTON BELT

Market	Date 1913-14	Length of Staple	Price per Pound in Cents	Length of Staple	Price per Pound in Cents	Difference in Points per lb.	Differences in Dollars per Bale	
							Actual	Adjusted to Same Staple Length
Chapin, S. C.	Feb. 10	3/4	13.00	1–1/16	12.00	100	$5.00	$15.00
Huntsville, Ala.	Dec. 4	1	12.50	1–1/16	11.50	100	5.00	10.00
Troy, Ala.	Jan. 8	1	12.50	1–5/16	11.25	125	6.25	3.75
Montgomery, Ala.	Jan. 24	1–5/16	13.12	1–5/16	12.12	100	5.00	5.00
Raleigh, N. C.	Nov. 11	7/8	13.38	7/8	12.38	100	5.00	5.00
Dublin, Ga.	Dec. 19	1	12.50	15/16	10.00	250	12.50	10.00
Moultrie, Ga.	Oct. 22	13/16	12.75	15/16	11.75	100	5.00	6.25
Washington, Ga.	Dec. 11	1	13.00	1	11.00	200	10.00	10.00
Aberdeen, Miss.	Nov. 25	1–5/16	13.00	1	12.50	50	2.50	5.00
Corinth, Miss.	Dec. 5	15/16	13.00	1	11.60	140	7.00	9.50
Starkville, Miss.	Nov. 28	1	12.75	15/16	10.10	265	13.25	10.25
Altus, Okla.	Nov. 1	1	12.50	1	11.00	150	7.50	7.50
Atoka, Okla.	Oct. 30	1	13.00	1–1/16	11.00	200	10.00	15.00
Atoka, Okla.	Nov. 13	1	13.00	1–1/16	11.25	175	8.75	13.75
Boswell, Okla.	Oct. 16	1	12.25	1–1/8	10.00	225	11.25	18.75
Durant, Okla.	Oct. 21	1–1/16	13.00	1–1/8	10.05	295	14.95	22.45
Durant, Okla.	Sept. 30	1–1/16	13.85	1–1/8	11.30	255	12.75	20.25
Erick, Okla.	Oct. 24	1	13.38	1	11.00	238	11.90	11.90
Erick, Okla.	Nov. 7	1	12.75	1–1/16	10.50	225	11.25	13.75
Jewett, Tex.	Nov. 7	1	12.50	1	10.00	250	12.50	12.50
Jewett, Tex.	Dec. 6	1	11.00	1	9.00	200	10.00	10.00
Jewett, Tex.	Dec. 12	1	11.00	1–1/8	9.00	200	10.00	10.00
Longview, Tex.	Nov. 30	1	14.50	1	12.10	240	12.00	12.00
Longview, Tex.	Nov. 8	1	12.62	1	9.50	312	15.60	15.60
Sweetwater, Tex.	Nov. 20	1	11.50	1	10.55	95	4.75	4.75
Taylor, Tex.	Oct. 30	1	13.55	1	12.35	120	6.00	6.00
Waco, Tex.	Oct. 23	1	13.50	1	12.00	150	7.50	7.50
Waco, Tex.	Jan. 9	1	8.50	1	7.25	125	6.25	6.25

difference of $12.50; on December 6, when the next samples were taken at that market, the difference between the prices of the highest and the lowest Middling 1″ bales was $10.00; while just six days later we find a Middling 1″ bale selling for 11¢ and a Middling 1⅛″ bale selling for 9¢, a difference of $10.00 per bale, and considering the fact that the second bale should have been worth 200 points more on account of its length of staple, a real difference of $20.00. In Longview, Texas, on November 8, two identical bales were sold for a difference of $15.60; and on November 30, two sold in the same market for a difference of $12.00. In Oklahoma we find the variations running from $7.50 per bale at Altus, on November 1, to $22.45 at Durant on October 31.

The investigators summed up their findings on this phase of the study as follows: "It may be stated that the fluctuations in prices paid for any grade of cotton from day to day, or during any one day, exceed greatly those justified by any change in the buyer's limits or in spot transactions in the great cotton markets. When such variations are shown by this investigation involving two or more bales of Middling grade in any market it is apparent that gross injustices may occur in many individual cases, and in the aggregate assume enormous proportions. These variations show a condition that is unfair to the producer, for it is the farmer, ignorant of the value of his crop and knowing least about marketing his product, who as a rule is called upon to submit to such practices. If the buyer and the seller were equally informed as to the grade of the bales offered, and if the sale of the individual bale were a matter of no more importance to the farmer than its purchase is to the buyer, such conditions could not exist. The farmer is necessarily under some pressure to sell after he has brought his bale to town. If he does not do so, he has lost a day's time and has no assurance that his next attempt to sell will be productive

of better results. Furthermore, he is not well enough versed in cotton grading to know exactly what his bale ought to bring, or whether the price offered is a fair one. The conclusion is irresistible that the burden of the great discrepancies in the prices paid for each standard grade must fall most heavily on those producers who are most ignorant of cotton grading and who are under the greatest pressure to sell." [3]

2. Undue Penalizing of the Lower Grades

The above tables record only the variations in prices of bales of Middling cotton of identical staple lengths, sold in the given market, on a given date. As remarked previously, Middling grade is the best known grade of the cotton trade, and that upon which all quotations are based and buying limits set. When we pass to a consideration of sales of cotton other than Middling, we find the variations in price even more marked. The investigators state: "An examination of the results of this investigation indicates that greater irregularities occur in the handling of the higher and lower grades than those shown for Middling cotton, the most notable being for the very low grades." [4] Table III on page 19 was compiled from the data obtained by the Oklahoma investigation of 1912-13. It shows the variations in price on the same day in the same market for bales of cotton grading lower than Middling. Only two or three bales were graded in each case and consequently these variations must not be taken as in any sense showing the maximum variations; they are approximately the average.

A study of this table shows variations ranging from $2.50 at Okema, on November 18, to $19.25 at Mangum on November 7, with an average of approximately $6.00

[3] Bulletin 36, United States Department of Agriculture, p. 13.
[4] Do., p. 15.

per bale. Concerning this condition the investigators of the Department of Agriculture say:

"Except in the latter part of the season when grades are running very low, and when tinges, stains, and spots occur which afford legitimate excuse for the differences in judgment as to the true value of the sample, there is no excuse for failing to come within one grade of the correct classification. In a market where it is intended to treat all customers alike and to buy cotton by grade, there is no excuse for offering for two bales of identical grade prices further apart than the prevailing difference sheets will justify on a range of five full grades.

TABLE III

VARIATIONS IN PRICES PAID FOR 500 LB. BALES OF SAME GRADE ON GIVEN DATES IN CERTAIN OKLAHOMA TOWNS

Date 1912	Place	Variation	Date	Place	Variation
		STRICT MIDDLING COTTON			
Oct. 29	Purcell	$2.50	Nov. 14	Terrall	$3.50
Nov. 2	Terrall	3.00	Nov. 16	Wanette	4.25
Nov. 4	Erick	5.75	Nov. 18	Marietta	3.25
Nov. 11	Mountain Park	7.25	Nov. 18	Okema	2.50
		LOW MIDDLING COTTON			
Nov. 7	Terrall	$4.50	Nov. 12	Terrall	$12.50
Nov. 9	Erick	5.00	Nov. 26	Porter	3.75
Nov. 9	Terrall	5.50	Nov. 27	Hobart	5.00
Nov. 11	Mangum	9.38	Nov. 29	Norman	6.25
		STRICT LOW MIDDLING COTTON			
Nov. 2	Terrall	$4.20	Nov. 18	Okema	$2.50
Nov. 4	Erick	4.69	Nov. 21	Mountain Park	3.75
Nov. 5	Caddo	4.75	Nov. 25	Norman	3.75
Nov. 7	Snyder	6.75	Nov. 26	Porter	4.37
Nov. 9	Erick	6.25	Nov. 30	Norman	5.00
Nov. 9	Terrall	4.50	Dec. 18	Duncan	10.00
Nov. 11	Wellston	2.50	Dec. 18	Waurika	3.00
		TINGES AND LOW GRADES			
Oct. 30	Purcell	$5.00	Dec. 12	Lawton	$5.00
Nov. 21	Noble	5.00	Dec. 20	Madill	7.50
Nov. 21	Byars	5.00	Nov. 8	Terrall	7.00
Dec. 4	Durant	5.00	Nov. 7	Mangum	19.25

"For the grades below Middling the penalties in a general way are about twice as great as those of the New York Cotton Exchange. This condition seems to have given rise to the opinion expressed by some independent ginners that they receive fairly good treatment as long as the grades are running around Middling, but that when the grades begin to run low, they are penalized to an unreasonable extent." [5]

When the Department of Agriculture made its more exhaustive investigation in 1913-14, this question of the variations in price between identical low grade cotton came in for a much more careful and thorough study. As in the case of Middling cotton the variations in prices were found to be greatest in the western part of the belt, but they were found to be very serious over the entire cotton territory. The following table (Table IV, page 21) gives the data disclosed by this study.

The maximum variation shown in this table is for Longview Texas, where, on November 22, two bales of cotton were sold—one bale being of 1″ staple and selling for 9½¢ per pound, and the other being of identical grade and of 1 1/16″ staple and selling for 4½¢, a difference of 5¢ per pound or $25.00 per bale. How such a thing could occur, under a smooth-running, automatically self-regulating system of Free Competition, is a bit obscure. The investigators suggest that, "it is probable that the producer owning the first bale knew something of values, and that the one selling for the lower figure knew nothing of grade or staple." [6]

While this was the maximum variation disclosed, others almost as remarkable occurred all over the cotton belt. Boswell, Oklahoma, on November 13, shows a variation of $21.55; Sweetwater, Texas, on January 15, $18.50; Dublin, Ga., on January 30, $17.50; Atoka, Oklahoma., on Oc-

[5] Bulletin 36, United States Department of Agriculture, p. 15.
[6] Bulletin 457, United States Department of Agriculture, p. 11.

TABLE IV

VARIATIONS IN PRICES PAID FOR TINGED AND STAINED COTTON

Market	Date 1913–14	Grade	Length of Staple	Price in Cents per lb.		Difference in Points per Pound	Difference in Dollars per Bale
				Highest	Lowest		
Chapin, S. C.	Dec. 15	S. M. St.	1	11.50	10.00	150	$7.50
Chapin, S. C.	Dec. 22	S. M. Tin.	15/16	12.00	10.25	175	8.75
St. Matthews, S. C.	Sept. 24	M. Sp.	3/4	12.06	10.00	206	10.30
Chapin, S. C.	Jan. 10	S. M. Tin.	15/16	12.08	10.02	206	10.30
Monroe, La.	Dec. 11	L. M. Sp.	1	12.00	10.00	200	10.00
Searcy, Ark.	Oct. 9	S. L. M. Sp.	1	13.12	11.00	212	10.60
El Dorado, Ark.	Nov. 6	L. M. St.	7/8	12.75	10.00	275	13.75
Fordyce, Ark.	Oct. 6	M. Tin.	15/16	13.00	11.30	170	8.50
Albertville, Ala.	Jan. 22	S. L. M. Tin.	1	12.00	10.00	200	10.00
Albertville, Ala.	Jan. 22	S. L. M. Sp.	15/16	12.50	11.00	150	7.50
Huntsville, Ala.	Dec. 11	M. Tin.	15/16	12.00	10.50	150	7.50
Atoka, Okla.	Oct. 22	S. off	15/16	13.00	10.00	300	15.00
Boswell, Okla.	Oct. 16	S. L. M. Tin.	1–1/8	12.50	10.35	215	10.75
Boswell, Okla.	Nov. 13	L. M. off	1	13.38	9.07	431	21.55
Hartwell, Ga.	Jan. 13	M. St.	15/16	12.50	10.50	200	10.00
Sandersville, Ga.	Jan. 19	S. L. M.	1	11.00	9.00	200	10.00
Haschton, Ga.	Dec. 18	S. M. Tin.	1	12.25	10.50	175	8.75
Washington, Ga.	Nov. 28	S. M. Tin.	1	12.56	10.50	203	10.30
Americus, Ga.	Dec. 17	M. blue	15/16	11.50	9.50	200	10.00
Dublin, Ga.	Jan. 30	M. blue	15/16	12.75	9.25	350	17.50
Sandersville, Ga.	Jan. 10	S. M. off	15/16	12.00	9.75	225	11.25
Longview, Tex.	Oct. 9	L. M. blue	1	10.60	7.60	300	15.00
Longview, Tex.	Oct. 23	L. M. off	1	11.50	8.50	350	17.50
Longview, Tex.	Nov. 22	S. G. O. St.	1–1/16	9.50	4.50	450	25.00
Sweetwater, Tex.	Jan. 15	L. M. St.	15/16	10.00	6.30	370	18.50

tober 22, $15.00; El Dorado, Ark., on November 6, $13.75; and various other markets all over the South from $7.50 to $15.00.

The conclusions of the investigators of the Department of Agriculture on this phase of their study are quite interesting. They say, "The fact that official standards for stained and tinged cotton have been promulgated should enable the merchant to handle colored cotton with little more risk than white cotton. The decreased risk naturally will give greater stability to the market and should enable the farmer to secure prices which are more in line with the value of the product offered. Table IV shows the wide range in prices paid in primary markets for tinged and stained cotton. It is but natural to expect a considerable range in prices, but there is no argument to justify a variation of 500 points in the same market on the same day for the same grade, especially when this difference amounts to more than was paid the producer of the lowest priced bale."

"It must not be supposed that the local buyer reaps the entire benefit of this loss, because he, too, is frequently not aware of the intrinsic worth of the cotton he purchases. Probably this amount is absorbed gradually all along the line, but the producer is the one who sustains the loss." [7]

The significance of this enormous, inexplicable, and utterly unjustifiable variation in the prices of identical low grade cotton depends upon the amount of it produced in any given season. The serious nature of the injustice done the farmer in the case given above is apparent when it is known that fully one-fourth of the crop marketed in that year was off-colored. The loss through the failure to secure a fair price for his low grade cotton is immediate and irrevocable so far as the farmer is concerned. In some years it may be little short of disastrous;

[7] Bulletin 457, United States Department of Agriculture, p. 11.

in others it will not be so serious. It is probably decreasing slowly as more careful and better articulated grading comes into general use, although as a matter of fact this tendency toward a narrowing of the margins is not appreciably apparent in the investigations made in Arkansas in 1920. At any rate the effects are principally financial, serious as those may sometimes be, and do not appreciably affect the long-time trend of cotton production in this country.

On the other hand, the failure of the primary markets to recognize properly and reward adequately the production of high grade varieties of cotton does have very serious consequences on the whole cotton trade. In all three of the investigations under review here the agents of the Department of Agriculture recognized the serious implications of this problem and made careful and exhaustive studies of the whole question of the premiums paid in the primary markets for superior grades, lengths of staple, and qualities of cotton. The results shown by the three studies were approximately the same, and merit our careful consideration.

3. Insufficient Premiums for the Better Grades, Staples and Qualities

For convenience the discussion of this problem may be divided into two parts: (1) failure of the primary markets to allow sufficient premiums for the better grades; and (2) failure of these markets to recognize and pay adequate premiums for the longer staples. They will be taken up in this order.

When the agents of the Department of Agriculture began their study of the markets of Oklahoma, they immediately discovered that the cotton trade did not recognize any grade above Good Middling. All Strict Good Middling and Middling Fair cotton was graded as Good

Middling. The reason for this practice was alleged to be that the higher grades are not produced in sufficient volume to permit of shipments in carload lots. In other words, "If the testimony of the trade is to be accepted, there is absolutely nothing gained at present by producing cotton in Oklahoma which grades above Good Middling." It is impossible to state how many Strict Good Middling and Middling Fair bales were produced in Oklahoma in 1912. However, in ten towns in which the investigators took samples of these extra high grades, they found 34 such, out of a total of 93 better than Middling bales classed.

But, aside from the fact that only two grades better than Middling were recognized by the trade,the investigation disclosed that these two grades did not command anywhere near an adequate premium above the lower grades. In fact, in a very great number of cases the lower grades of cotton actually sold on the open market for more money than the higher. The following tables indicate the extent to which this lack of recognition of the higher grades is carried.[8]

At Erick on November 4, two Good Middling bales sold for 10.85¢ per pound while in the same market on the same day three Strict Low Middling bales, three full grades lower in the scale, brought 11.95¢. At Wellston on November 11, two Strict Middling bales brought 11.94¢ while eight Strict Low Middling bales, two full grades lower, brought 11.95¢. Again at Okema on November 18, two Low Middling bales brought $1.75 per bale above the average price of six Strict Middling bales, another instance of missing the proper relations by three full grades. These examples might be multiplied any number of times from the various tables in this chapter.

The investigators state that, "in a large number of the markets it would appear that there is no attempt to dis-

[8] Table from Bul. 36, p. 20-21.

TABLE V

CERTAIN PLACES AND DATES AT WHICH THE AVERAGE PRICE PAID FOR HIGHER GRADES OF COTTON WAS LESS THAN FOR LOWER GRADES

Market (Okla.)	Date 1912	Higher Grades			Lower Grades		
		No. Bales Sold	Grade	Average Price per lb.	No. Bales Sold	Grade	Average Price per lb.
Shady Point ...	Oct. 25	2	G. M.	10.90	2	S. M.	10.95
Holdenville ...	Oct. 26	4	S. M.	10.70	2	M.	10.725
Purcell	Oct. 30	7	G. M.	10.86	9	S. M.	11.01
Caddo	Oct. 30	4	S. M.	11.094	2	M.	11.125
Noble	Nov. 1	3	G. M.	11.47	6	S. M.	11.51
Norman	Nov. 4	5	S. M.	11.32	7	M.	11.36
Erick	Nov. 4	2	G. M.	10.85	3	S. L. M.	11.23
Luther	Nov. 11	3	G. M.	11.17	2	S. M.	11.19
Cordell	Nov. 8	3	S. M.	11.40	4	M.	11.42
Okema	Nov. 9	16	S. M.	11.73	2	M.	11.75
Wellston	Nov. 11	2	S. M.	11.94	8	S. L. M.	11.95
Durant	Nov. 13	3	S. M.	12.10	2	S. L. M.	12.125
Altus	Nov. 14	6	S. M.	11.69	1	M.	11.75
Bennington ...	Nov. 14	2	M.	11.75	3	S. L. M.	11.77
Arcadia	Nov. 16	4	M.	11.55	3	L. M.	11.70
Marietta	Nov. 16	5	S. M.	11.63	6	M.	11.65
Okema	Nov. 18	6	S. M.	11.40	2	L. M.	11.75
Gould	Nov. 22	5	S. M.	12.08	2	M.	12.30
Hastings	Nov. 29	2	S. M.	12.06	3	M.	12.29

TABLE VI

HIGH GRADE BALES SELLING FOR LESS THAN LOW GRADE, AND AMOUNT OF PREMIUM THESE SHOULD HAVE BROUGHT

Date, 1912	No. of Bales	Grade	Average Price Per Lb.	No. of Bales	Grade	Average Price Per Lb.	Total Penalty on Good Bales	Difference Sheet Premiums on Bales	Loss to the Grower
MAGNUM, OKLAHOMA									
Nov. 7...	5	S. L. M.	11.50	8	S. M.	11.41	$1.35	$ 7.50	$ 8.55
Nov. 11...	1	S. L. M.	11.85	5	S. M.	11.75	2.50	12.50	15.00
Nov. 12...	2	S. L. M.	11.61	3	M.	11.75	0.45	5.63	6.08
Dec. 13...	4	O.	10.81	1	L. M.	10.50	1.55	13.75	15.30
MOUNTAIN PARK, OKLAHOMA									
Nov. 4...	4	M.	11.49	5	S. M.	11.47	$0.50	$ 3.23	$ 3.73
Nov. 11...	2	M.	12.03	7	S. M.	11.87	5.60	4.38	9.98
Nov. 18...	6	L. M.	11.09	5	M.	10.98	2.75	31.25	34.00
Nov. 21...	3	M.	11.60	4	S. M.	11.49	2.20	3.75	5.95

tinguish between grades above Middling, and it is merely a matter of chance which grade happens to show the best

average price." [9] After compiling the data from this investigation and from the larger one in 1913-14, the agents of the Department of Agriculture state that "practically no premium is paid for cotton above Middling." [10] Their conclusion on the whole matter is as follows: "The farmer sells his cotton subject to comparatively little variation in price in consequence of variations in grade, but he is subjected to a process of averaging to which he is not consciously a party, which is based upon no definite consideration of his rights or interests and which must inevitably be so adjusted as to leave a hidden profit for the buyer. This system of averages is arrived at by rule of thumb, is never reduced to writing, and is subject to no supervision or adjudication. Averaging prices on the original purchase of cotton is a vicious practice because it is impossible to equitably distribute its benefits and burdens." [11]

When we turn to a consideration of the matter of a proper premium for the better staples, we find an even more chaotic and a more serious condition. It is hardly to be expected that a market which can fail to distinguish between Strict Middling and Low Middling cotton will be able to make the much more delicate and exacting distinction between 15/16" staple and 1". As a matter of fact a majority of the buyers operating in the primary markets have little knowledge of the various lengths of staple, and have had almost no experience in stapling, or "pulling" cotton. Of course the average farmer knows absolutely nothing about it. Consequently, as in the case of the better grades, and to a much greater extent on account of the general ignorance of both buyer and seller, we have in the matter of buying on staple a crude system of averages. The most remarkable feature of the system

[9] Bulletin 36, United States Department of Agriculture, p. 21.
[10] Bulletin 457, United States Department of Agriculture, p. 13.
[11] Bulletin 457, United States Department of Agriculture, p. 17.

is its crudeness. It is unbelievable that such a system could continue for half a century under the "exacting eye and relentless justice of Free Competition."

Let us see what the data disclose. Here is a table (Table VII, p. 27) of the average prices received for cotton of ¾″ to 1⅛″ staple. This table covers the data for the entire cotton belt for the season of 1913-14. Here are

TABLE VII

THE AVERAGE PRICE FOR EACH STAPLE, AND AVERAGE STAPLE LENGTH FOR EACH STATE OF THE COTTON BELT. 1913-14

State	Average Staple Length	Average Price per lb. for Staple of the Following Lengths						
		3/4″	13/16″	7/8″	15/16″	1″	1-1/16″	1-1/8″
Georgia	0.955	12.89	13.11	12.94	13.01	13.09	13.14	13.09
No. Carolina.	.915	11.70	12.35	12.86	13.19	12.58	13.30	13.17
So. Carolina.	.93	12.59	12.52	11.70	12.89	13.11	13.27	13.63
Texas	.98	11.33	....	11.28	11.05	11.19	10.87	10.94
Oklahoma ...	1.02	10.50	11.50	10.59	11.29	11.73	11.21	12.75
Louisiana ...	.98	11.12	9.94	11.05	11.41	11.83	11.90	12.87
Arkansas	.95	11.63	11.93	11.82	12.05	12.06	11.87	12.57
Mississippi ..	.98	12.03	13.13	12.94	12.93	13.01	13.13	13.31
Alabama	.96	13.23	12.90	12.95	12.97	12.91	13.06	13.00
Average price for whole belt		12.73	12.28	12.28	12.76	12.58	12.12	12.76
Total number of samples of each staple taken		457	556	6,840	7,510	10,084	2,275	1,191

recorded the average prices of 28,913 bales of cotton. What do the figures show about the relative prices paid for the various staples? Throughout the whole belt we find ¾″ staple commanding an appreciably higher average price in the primary markets than 13/16″, ⅞″, 1″, and even more than 1 1/16″ cotton. As a matter of fact we find the average price of 1 1/16″ cotton lower than that of any other staple length, although it is the second longest recorded, and in the spinner markets was commanding a premium of approximately $10.00 per bale over ¾″

staple. In other words, if ¾″ cotton was selling for what it was worth in the primary markets of the South, then 1 1/16″ cotton was being penalized approximately $13.00 per bale, and 1⅛″ cotton about $2.00 more.

Of course this inexplicable and utterly unjust system of averaging shows particularly vicious results in certain sections of the belt. For instance, in Texas ¾″ cotton brought more money to the producer than any other staple; the least valuable product brought the highest price. The same thing holds true in Alabama. In the latter State ¾″ cotton sold for $1.15 per bale more than 1⅛″. It seems altogether improbable that this condition could have existed in any large number of the markets at any given time. Yet the data compiled show it to have prevailed very generally throughout the belt, and for the entire selling season.

Table II on page 16 is a compilation of the variations in the price of Middling cotton, of varying staple lengths, in various markets covering the entire belt. This table is a detailed picture of the conditions presented in general outlines in the above table.[12]

Here [13] we find an almost complete disregard of the basic values of staples in the primary markets all the way from Chapin, South Carolina, to far western Erick, Oklahoma. In the former market on February 10, 1914, a Middling grade ¾″ staple bale of cotton brought 13¢ per pound while a bale of 1 1/16″ staple and Middling grade sold for 12¢, an actual difference of $5.00 in favor of the poorer bale, and a potential difference of probably $15.00. In the latter market, on November 7, 1913, a bale of 1″ Middling grade cotton brought 12.75¢ while a bale of identical grade and 1 1/16″ staple brought only 10.50¢, an actual difference of 225 points to the advantage of the seller of the less valuable bale, and a potential difference of about 50 points more.

[12] Table VIII, p. 29. [13] Table II, p. 16.

When this is found to be true of markets all across the cotton belt to such an extent that an average for the whole belt shows the condition to be the normal thing, we can understand the feeling of many of the more intelligent farmers that our marketing machinery is radically out of sorts. The serious implications of this complete failure of the primary markets to recognize and adequately reward the production of the better grades and staples has reached far beyond the mere matter of

TABLE VIII

AVERAGE PRICE OF COTTON FOR EACH STATE, BY MONTHS, FOR THE SAME GRADE AND STAPLE

State	S. G. O.	L. M.	S. L. M.	M.	S. M.	G. M.	S. G. M.
October							
Mississippi ..	13.05	12.99	13.33	13.39	13.30	13.36	13.32
Arkansas ...	12.00	12.38	12.67	13.05	13.20	13.66	13.08
Louisiana ..	11.92	12.18	12.62	13.40	13.70	14.25	13.91
Texas	10.18	11.50	12.23	12.83	13.26	13.03	12.67
Oklahoma ..	11.31	12.06	12.52	12.91	13.14	13.21	13.36
No. Carolina.	12.99	13.00	13.15	13.24	13.57	13.54	13.50
Georgia	13.06	13.02	13.20	13.36	13.41	13.50	13.58
So. Carolina.	13.31	13.25	13.18	13.41	....	13.48	13.43
Alabama ...	13.51	13.34	13.19	13.32	13.39	13.42	13.47
November							
Mississippi ..	11.56	12.07	12.26	12.36	12.57	12.80	12.70
Arkansas ...	11.21	11.73	11.83	12.17	12.87	13.22	13.40
Louisiana ..	10.91	10.86	11.21	11.76	....	....	12.78
Texas	9.88	10.48	10.88	11.35	12.04	12.01	12.17
Oklahoma ..	9.95	11.02	11.56	11.91	12.16	12.45	11.68
No. Carolina.	12.06	12.44	12.38	12.18	13.25	13.32	13.50
Georgia	12.31	12.41	12.86	13.14	13.27	13.39	13.43
So. Carolina.	12.42	12.85	12.97	13.16	....	13.29	13.41
Alabama ...	12.45	12.94	12.98	12.96	13.02	13.09	13.34
December							
Mississippi ..	10.75	....	11.82	12.40	12.26	12.30	12.29
Arkansas ...	10.87	10.89	11.36	11.46	11.86	12.58	12.94
Louisiana ..	10.20	10.51	11.46	11.50	11.38	13.38	13.00
Texas	9.11	9.09	10.16	10.65	10.96	11.31	....
Oklahoma ..	9.40	9.75	11.00	10.76	10.80	12.63	12.00
No. Carolina.	10.90	11.13	12.00	13.25	12.13	13.15	13.13
Georgia	11.35	11.66	12.16	12.66	12.79	12.86	12.95
So. Carolina.	11.19	12.10	12.43	12.44	....	12.71	13.00
Alabama ...	11.59	12.02	12.14	12.35	12.46	12.54	12.49

immediate financial loss to the individual farmer. Under such a system it becomes difficult to secure any improvement in the quality of cotton produced. As a matter of fact as pointed out by the Department of Agriculture, "Under this system of marketing it is often profitable for the producer to confine his efforts to the growing of the shorter lengths, for as a rule there is a correlation between the length of staple and the percentage of lint—usually the shorter the length of staple, the higher the percentage of lint; therefore, at the same price per pound, the producer of the shorter staple would receive the greater returns." [14] The far-reaching effects of this may be seen all across the South. The farmer who takes the trouble and makes the sacrifices necessary to improve the quality of his product has his trouble for his pains.[15]

The evils of this "Hog Round" system of marketing are too apparent, and too well-known to necessitate further comment here. The conclusions of the experts of the Department of Agriculture were expressed as follows: "Nothing retards improvements in the methods of handling cotton more than this penalizing of the higher grades, for the thoughtful producer sees his product priced the same as that of his careless and indifferent neighbor, and naturally feels that there is no inducement to continue his painstaking work as long as such market-

[14] Bul. 457, United States Department of Agriculture, p. 10.

[15] The writer very well remembers one such experiment in growing an improved variety of cotton. In 1902 my father introduced a variety of cotton on our farm in Menard County, Texas, which gave a brighter sample, and which also gave a staple at least ⅛″ longer than any other variety grown in that community. On the other hand, it took 1650 pounds of seed cotton to turn out a 500 pound bale; while the variety generally cultivated in that section of the State required slightly less than 1500 pounds. We planted our entire farm to the finer variety in 1902 and 1903. But when we brought this cotton to market, on no occasion did it ever command a better price than the average staple produced in that community. After these two years we abandoned the expensive experiment, and returned to the cultivation of the poorer, but more lucrative, variety.

ing conditions exist. In effect, it is placing a premium on the careless and indifferent farmer and penalizing the intelligent producer." [16]

4. Unfair Differential in Price Between the Eastern and Western Sections of the Cotton Belt

Table VIII on page 29 gives a résumé of all the data collected by the investigation of 1913-14. Here we have the monthly average prices of cotton for each state and for each grade from Strict Good Ordinary to Strict Good Middling. The length of staple is not taken into account in this table. But a glance at Table VII, page 27, gives the information concerning the staple lengths of the cotton of the various states. From Table VIII it appears that there is a fairly regular differential in prices, for the same grade of cotton, against the states in the western half of the belt, of from 100 to 300 points. This differential is very difficult to explain in view of the fact that the staple grown in the Western States is distinctly superior to that grown in the eastern end of the belt. The explanation made by the investigators is worth presenting in toto:

"It is well to consider that while the East has an advantage in freight rates to Eastern destinations, the superiority of the staple of the Western Belt should more than overcome any advantage possessed by the East in transportation. However, in comparing prices it may be well to allow for an extreme variation of 50 points in order to absorb the possible difference in freight rates. Any excess over this variation would indicate that the local market was out of line. Taking, for example, Low Middling, December, the range in prices is from 9.09¢ per pound in Texas to 12.10¢ per pound in South Carolina, a range of 301 points. Allowing for a variation of 50 points,

[16] Bul. 457, United States Department of Agriculture, p. 4.

it is still found that Texas for that month is 250 points out of line, or $12.50 per bale lower than South Carolina. While this instance shows the extreme range in price, many cases are recorded where differences existed between states ranging from 100 to 150 points during the same month. The widest variations are usually found between the Eastern and Western States.

"From these investigations, it appears that in the Eastern belt the higher prices may be accounted for in three ways: first, and probably the most important cause, is proximity to the cotton mills. Certain mills find it advantageous to control producing sections in their vicinity in so far as possible, thereby reducing competition. It is thus possible for them to pay higher prices because of lower freight rates, as they see just what they are buying, and because they reduce the risk of loss in weight claims, delays, and the many other hazards incidental to buying from a distance. A second factor is probably the absence of most of the middlemen. A portion of the cotton purchased in the Eastern belt, especially in the Carolinas, passes directly from the primary purchaser to the mill buyer, which enables the producer and the consumer to secure profits that ordinarily are obtained by the intermediaries. A third probable reason is that in the Eastern belt primary marketing conditions are superior, storage houses are more generally available, money rates are comparatively lower, and competition probably exists to a greater degree than in the West. Then, too, the marketing of the cotton is in the hands of farmers who through generations of training, know the approximate value of their crop and as a result, command a fair price for their product. If the price offered does not satisfy them they usually can store in a warehouse and, with the certificate issued, negotiate a loan, at a reasonable rate of interest, for such sums as may be necessary to finance their business." [17]

[17] Bul. 457, United States Department of Agriculture, p. 4.

The explanation based on proximity to the mills is hardly conclusive when it is noted that out of eighteen comparative prices given South Carolina is above North Carolina (where most of the mills are situated) a total of ten times; Georgia is above North Carolina thirteen out of twenty-one times; and Alabama is the better market eleven out of twenty-one chances. Alabama, handling a slightly inferior staple, shows an advantage in price over Texas in exactly twenty out of the twenty comparisons made, her average differential for all grades being 159 points per pound, or $7.95 per bale. A bale of cotton could be shipped from Texas around the world for less than that.

As a matter of fact none of these explanations explain. If they did, since these factors are fairly constant throughout any given season, we might expect the differentials to remain constant also. They do nothing of the sort. The differentials against the Texas farmer are as inconstant as the Texas weather. The data show the minimum differential against the Texas farmer as compared with the North Carolina farmer to be 21 points on Strict Middling, October, and the very next month shows the maximum differential of 218 points on Strict Good Ordinary, and 121 points on Strict Middling; a variation in the amount of the differential on exactly the same grade of cotton of 100 points between the two consecutive months. An explanation of such conditions is indeed difficult.

5. Advantages Gained Through the Farmer's Knowing the Grade and Staple of His Cotton

In 1917 the United States Department of Agriculture took cognizance of an investigation which had been going forward in Arkansas for the past four years. This was a study of the primary marketing conditions in Arkansas, promoted by the State Department of Agriculture and the

College of Agriculture of the State University. With the coöperation of the United States Department of Agriculture, this study was continued during 1917-18 and 1918-19. In these investigations a new attack was made on the problem. In the previously described investigations the Department of Agriculture had merely attempted to discover the actual facts as to conditions in the primary cotton markets of the South. No effort was made at controlled experiment. No adequate attempt was made to break up the problem into its component parts with the idea of segregating these parts, and studying them separately, in order to measure statistically the significance of each, and to propose remedies for such as needed remedying. In the Arkansas investigations an effort was made to select one significant phase of the whole marketing problem and to study this phase to the general exclusion of all others. The one selected for study was the one given above: the advantages to be gained through the farmer's knowing the grade and staple of his cotton when offering it for sale in the primary markets.

During the ginning season of 1918-19 the Department of Agriculture sent its agents to the various gins of the State where they selected samples of 75,600 bales of cotton. These samples were sent to headquarters in Little Rock where they were graded and stapled by government classers. This information was then transmitted to the owners of the cotton. The result was that some thousands of farmers knew the exact grade and staple of their product when it was offered in the primary markets. The sale of this cotton was then carefully followed by the investigators. The date of sale of each bale was recorded together with the grade, staple, and price of each. At the same time information was collected and compiled showing the sale of identical cotton in the same markets on the same dates by farmers who did not know the class

of the cotton they were selling. The data obtained were quite startling, and indicate the tremendous significance of the problem suggested above. Tables IX and X on pages 36 and 39 indicate the enormous advantage to the farmer in knowing the grade and staple of his cotton when he brings it to the market.

In Table IX we have a comparison of average prices received for cotton of various grades and ⅞″-1″ staple. In column 1 is shown the price quoted on the Little Rock market on the given days; in column 2, the price received by those farmers who did not know the grade or staple of their cotton; and in column 3, the prices received by those farmers who did know the class of their commodity when offering it for sale. Column 4 shows the difference in points per pound between the prices received by the uninformed grower and those paid on the Little Rock market; column 5 shows the same thing in dollars per bale. Columns 6 and 7 show the value, in points per pound and dollars per bale, in knowing the grade of one's cotton when offering it for sale in the primary markets.

In comparing these tables with the ones taken from the studies of 1912-13 and 1913-14 it must be remembered that the basic price of cotton had more than doubled when the Arkansas study was made. Even allowing for the very high prices and the consequent necessity for greater margins in handling cotton, it is quite unbelievable that a difference of $40.00 per bale for identical cotton could have existed between the price paid in Little Rock and at country points near-by. Yet we find that the farmers who sold Good Middling cotton on October 1, 1918, without knowing the class of their product were penalized exactly that amount. While this was the maximum penalty for ignorance disclosed by the data, there were many cases in which the farmer who sold without knowing the quality of his cotton was penalized more

TABLE IX

COMPARISON OF AVERAGE PRICES RECEIVED FOR COTTON (7/8" TO 1" STAPLE) BEFORE AND AFTER CLASSING, AT PRIMARY MARKETS IN ARKANSAS, WITH THE LITTLE ROCK SPOT MARKET PRICE FOR THE CORRESPONDING GRADES, ON CERTAIN DAYS OF THE COTTON SEASON OF 1918-19

Date	Grade	1 Price at Little Rock, ¢ per lb.	2 Price Before Grading, ¢ per lb.	3 Price After Grading, ¢ per lb.	4 Difference Between Columns 1 and 2	5	6 Difference Between Columns 2 and 3	7
					¢ per lb.	$ per bale	¢ per lb.	$ per bale
Sept. 15	G. M.	36.00	31.25	35.25	5.75	28.75	4.00	20.00
Sept. 15	S. M.	35.50	29.00	34.25	6.50	32.50	5.25	26.25
Sept. 15	M.	34.50	....	33.72	....	....	....	....
Sept. 15	S. L. M.	33.00	....	....	....	....	....	....
Oct. 1	G. M.	35.00	27.00	32.50	8.00	40.00	5.50	27.50
Oct. 1	S. M.	34.50	28.70	32.25	5.80	29.00	3.55	17.75
Oct. 1	M.	33.50	....	32.59	....	....	....	....
Oct. 1	S. L. M.	32.00	....	....	....	....	....	....
Oct. 15	G. M.	33.00	28.85	31.14	4.15	20.75	2.29	11.45
Oct. 15	S. M.	32.50	25.52	30.69	6.98	34.90	5.17	25.85
Oct. 15	M.	31.50	25.09	30.43	7.41	32.05	5.34	26.70
Oct. 15	S. L. M.	30.00	....	....	....	....	....	....
Nov. 1	G. M.	31.00	26.10	30.70	4.90	24.50	4.60	23.30
Nov. 1	S. M.	30.50	25.65	30.60	4.85	24.25	4.96	24.25
Nov. 1	M.	29.50	25.69	29.63	3.81	19.05	3.94	19.70
Nov. 1	S. L. M.	28.00	24.15	27.50	3.85	19.25	3.35	16.75
Nov. 15	G. M.	32.00	25.17	29.98	4.83	24.15	4.81	24.05
Nov. 15	S. M.	31.50	24.90	29.70	6.60	33.00	4.80	24.00
Nov. 15	M.	30.50	24.83	29.27	5.67	28.35	4.44	22.20
Nov. 15	S. L. M.	29.00	23.50	28.00	5.50	27.50	4.50	22.50
Dec. 1	G. M.	31.00	24.66	28.96	5.44	27.20	4.30	21.50
Dec. 1	S. M.	30.50	25.25	28.96	5.25	26.25	3.71	18.55
Dec. 1	M.	29.50	24.64	28.83	4.86	24.30	4.19	20.95
Dec. 1	S. L. M.	28.00	24.18	28.17	3.82	19.10	3.99	19.95
Dec. 15	G. M.	29.50	24.97	29.21	4.53	22.65	4.24	21.20
Dec. 15	S. M.	29.00	25.20	28.63	3.80	19.00	3.43	17.15
Dec. 15	M.	28.50	24.30	28.17	4.20	21.00	3.87	19.35
Dec. 15	S. L. M.	27.25	24.25	27.50	3.00	15.00	3.25	16.25
Jan. 1	G. M.	31.50	25.65	29.46	5.85	29.25	3.81	19.05
Jan. 1	S. M.	31.00	25.60	28.88	5.40	27.00	3.28	16.40
Jan. 1	M.	30.50	24.61	28.22	5.89	29.45	3.61	18.05
Jan. 1	S. L. M.	29.25	22.75	27.38	7.50	37.50	4.63	23.15
Average differentials					5.30	26.50	4.18	20.90

than $30.00 per bale, and the average for all the cases recorded was $26.50 per bale.

Not quite all of this astounding loss to the farmer may be properly charged to his ignorance of the quality of his product. Nevertheless, by far the major portion of it is to be so charged. The proof of this fact is shown by the relative prices received for their cotton by those farmers who knew its class as compared with those who did not have that knowledge. The last two columns in Table IX carry this information. A study of these figures discloses the fact that the farmer who had definite information as to the grade and staple of his cotton was able to sell at a tremendous advantage as compared to his unfortunate neighbor. This advantage ranged all the way from 229 points per pound, or $11.45 per bale, on Good Middling on October 15 to 550 points per pound, or $27.50 per bale on Good Middling just two weeks earlier in the season. The average advantage realized by the informed seller was 418 points, or $20.90 per bale. After stating that "A cotton buyer cannot be expected to pay more for cotton than the price which will buy it," the investigators conclude with this advice: "The producer, of staples especially, who does not inform himself regarding the grades and lengths of his cotton is wasting time and money for special seed. He might as well plant 'Half and Half' [18] or similar varieties."

In Table X we have a comparison of the average prices received for Strict Middling cotton of the longer staple lengths. In column one is given the price quoted on the New Orleans spot market on the given days; in column

[18] "Half and Half": a variety of cotton of very short staple and poor quality, which is reputed to give a "turnout" of half lint and half seed. While it never actually gives this maximum "turnout," under the "Hog-round" system of marketing, it is undoubtedly more profitable to produce such a variety than one of better quality, but of much lower percentage of lint. The better varieties of short staple cotton yield approximately one pound of lint for two pounds of seed.

two, the price received by those farmers who did not know the grade or staple of their cotton; and in column three, the prices received by those farmers who did know the class of their commodity when they were selling it. Column four shows the difference in points per pound between the price received by the uninformed farmer, and that paid on the New Orleans market; column five shows the same thing in dollars per bale. Columns six and seven show the importance, in points per pound and dollars per bale, of an accurate knowledge of the characteristics of one's cotton when offering it for sale in the primary markets.

In making these comparisons, it must be remembered that the basic price of cotton was very high in 1918-19, that we are here considering cotton of better than average grade, and also cotton of better than average staple. However, during the years in which this investigation was carried out approximately 30 per cent of the cotton produced in Arkansas was of the lengths of staple shown in this table. Making all due allowances for the various factors which would necessitate an unusually large margin in price between the country markets and New Orleans, still it is wholly unreasonable that this margin should ever have been $65.60 per bale. And yet the figures show that to have been the case for 1 3/16″ cotton on October 1, 1918. In other words, the farmer sold his cotton for $130.00 per bale when the New Orleans market was paying $195.60. The average differential in price, for the six dates on which the comparisons were made, was 732 points per pound, or $36.60 per bale.

When we compare the prices received by those farmers who knew the staple of their cotton (column three) with the New Orleans market (column one), there is still a wide difference. But this difference is considerably less than half that suffered by those farmers who trusted to a

TABLE X

COMPARISON OF THE AVERAGE PRICES RECEIVED FOR STRICT MIDDLING COTTON BEFORE AND AFTER GRADING AND STAPLING, AT THE PRIMARY MARKETS IN ARKANSAS, WITH THE NEW ORLEANS MARKET FOR IDENTICAL COTTON, ON CERTAIN DAYS OF THE COTTON SEASONS OF 1918-19

Date	Length of Staple	1 Price at New Orleans ¢ per lb.	2 Price Before Stapling ¢ per lb.	3 Price After Stapling ¢ per lb.	4 Difference Between Columns 1 and 2	5 Difference Between Columns 1 and 2	6 Difference Between Columns 2 and 3	7 Difference Between Columns 2 and 3
					¢ per lb.	$ per bale	¢ per lb.	$ per bale
Sept. 15	1-1/16	35.00	30.00	32.50	5.00	25.00	2.50	12.50
Sept. 15	1-1/8	36.50	31.50	33.00	5.00	25.00	1.50	7.50
Sept. 15	1-3/16	38.00	30.00	33.00	8.00	40.00	3.00	15.00
Oct. 1	1-1/16	35.12	25.00	34.00	10.12	50.60	9.00	45.00
Oct. 1	1-1/8	37.12	26.00	35.50	11.12	55.60	9.50	47.50
Oct. 1	1-3/16	39.12	26.00	38.00	13.12	65.60	12.00	60.00
Oct. 15	1-1/16	32.25	25.00	32.50	7.25	36.25	7.50	37.50
Oct. 15	1-1/8	34.75	30.00	33.00	4.75	23.75	3.00	15.00
Oct. 15	1-3/16	37.25	27.50	36.50	9.75	48.75	9.00	45.00
Nov. 1	1-1/16	31.75	25.00	31.50	6.75	33.75	6.50	32.50
Nov. 1	1-1/8	34.50	27.00	33.50	7.50	37.50	6.50	32.50
Nov. 1	1-3/16	37.00	29.00	35.00	8.00	40.00	6.00	30.00
Nov. 15	1-1/16	30.75	25.00	30.00	5.75	28.75	5.00	25.00
Nov. 15	1-1/8	32.75	27.00	32.50	5.75	28.75	5.50	27.50
Nov. 15	1-3/16	34.00	28.50	33.00	5.50	27.50	4.50	22.50
Dec. 1	1-1/16	30.00	24.00	29.50	6.00	30.00	4.50	22.50
Dec. 1	1-1/8	32.25	27.00	30.00	5.25	26.25	3.00	15.00
Dec. 1	1-3/16	34.00	....	....	...	....	...	....
Average differentials					7.32	36.60	5.79	28.95

competitive market to determine the proper class and price of their products. The advantage gained by the informed seller varied from 150 points, or $7.50 per bale, to 1200 points, or $60.00 per bale; and averaged for the whole period 579 points, or $28.95 per bale. The advice given the farmer was sound: If he isn't going to know the grade and staple of his cotton when offering it for

sale, he might as well plant "Half and Half" and get the advantage of the larger lint turnout.

6. Continuous and Complete Failure of Free Competition in Securing to the Farmer a Fair Price for His Cotton

All of the data collected by the Department of Agriculture in these three investigations point irresistibly to the conclusion that "Unhampered Free Competition" means slightly less than nothing at all in securing a fair price for his product, to the uninformed cotton grower. This is not meant to imply that competition does not exist in the primary markets; nor should it be taken as a condemnation of the buyers in those markets. As a matter of fact the agents of the Department of Agriculture report that they failed to find in a single case any clear-cut evidence of an attempt to combine for the purpose of limiting competition. Then, the only conclusion left to us is that competition is not, after all, the precise, definite, shrewdly calculating, and eternally just regulator of prices that we have been wont to consider it. At least not in this specific case. In the matter of English corn prices in 1830 the evidence may have led to different conclusions.

The investigators were unanimous in their opinion of the efficacy of competition as a determiner of fair prices for cotton. Their conclusions, after the Oklahoma study, were expressed as follows: "Cotton growers very generally measure the desirability of a market by the number of cotton buyers therein. A town with four buyers is generally believed to be a better market than a town with only three buyers. Our work gives us no ground for accepting this view—Mountain Park has only two buyers, but Mangum has twenty-seven street buyers and we must assume that everything that competition can do to

force the proper respect for quality is done in Mangum. If there is a point in the State where competition in buying should yield its greatest boon to the producer, it is here. How then are we to account for such a reversal of qualities and prices as are here shown? By what operation of the competitive principle does it happen that a Low Middling bale can be bought for $1.55 less than the average price of four Ordinary bales, when by the published differences of the trade it should bring $13.75 more than the Ordinary bale? . . . The utter failure of competition to secure proper discrimination in gradations of prices is as much a matter of surprise to the writers as it will be to the cotton interests themselves."

The conditions disclosed by these investigations have been sensed, though never clearly analyzed nor understood, by the farmers themselves. As a matter of fact the attention of the farmers has been all too often diverted from the actual evils of the system to the imaginary ones. Political capital has been regularly made of the farmers' ignorance, prejudices, and bitter resentment. The "Railroads," the "Trusts," and "Wall Street" have each been introduced as the double-dyed villain who is in some esoteric manner responsible for the destitution and desolation of the cotton farmer. That the railroads on various occasions have been guilty of unfair, discriminatory, and unreasonable practices to the detriment of the financial well-being of the cotton farmer is indisputable. Many well-intentioned and reasonably intelligent men might be found who would urge strongly that the fostering of gigantic corporations behind the protecting aegis of the national tariff system can hardly be calculated to have put money into the pockets of the cotton farmer. And even a few radicals have on occasion remarked, with some degree of reasonableness, and much show of spirit, that the operation of the great New York Cotton Ex-

change has not always served, with single-minded purpose, the best interests of the man most concerned, the cotton farmer.

Even admitting the full allegations concerning the high crimes and misdemeanors of these heavy villains in the cast, it is still undoubtedly true that the petty thieving of the minor villains sums up in the aggregate to a much more serious loss to the farmer. Furthermore, these apparently minor wastes of the system are nearer the farmer, are more easily detected, and very much more easily eliminated by a proper organization and control of the industry. But they are very poor subjects for a Jefferson Day oration, and certainly do not lend themselves readily to a political or journalistic scheme for saving the farmer. Consequently, in the language and literature of the self-appointed savers of the farmer we hear much of cotton gamblers, and little about any conscious attempt to organize the whole machinery for carrying cotton from the farm to the mill in such a manner as to permit the farmer to secure some of the well-known benefits of Free Competition.

CHAPTER II

THE MONTGOMERY CONVENTION AND THE SAPIRO PLAN

It is somewhat difficult to tell a concise and intelligible story of the formation of the state coöperative cotton marketing associations. The conditions out of which they came were so chaotic and so desperate that the reports are often conflicting and even contradictory. It is not surprising that we find divided councils, misunderstood motives, leaders working at cross purposes, exaggerated promises for all sorts of panaceas, bitterness, petty bickerings, noble self-sacrifice, honest and intelligent leaders sitting in council with demagogues, petty thieves, self-seeking politicians, and ignorant babblers. Such was necessarily the case. This was a movement involving millions of people and billions in money. We have no record in our history of any such movement which did not attract all the sorts and conditions of leaders and would-be leaders known to a democratic order.

A very brief review of the conditions out of which the new program came will be sufficient. In 1920 the agricultural sections of the United States suffered a catastrophe unparalleled in the experience of American agriculture. The Agricultural Inquiry Committee of Congress declared that "the debacle of prices for agricultural products left the American farmer in a worse condition than he had suffered in thirty years." [1]

The position of the cotton farmer was peculiarly desperate. He had increased his production by approximately 2,000,000 bales above the average of the preceding five

[1] Report of the Joint Committee of Agricultural Inquiry, Vol 1.

years. This cotton had been produced at enormous expense. Between July 27, 1920 and March 2, 1921—a period of less than eight months—the price of Middling cotton on the New York Exchange dropped from 40 cents to 11½ cents per pound. This situation has no parallel in the history of the cotton trade. Cotton produced at a cost which in many instances exceeded 30 cents a pound sold for less than 10 cents: a net loss of approximately $100.00 a bale.

The United States Department of Agriculture, after a detailed study of two typical cotton counties (Sumpter County, Georgia, and Catawba County, North Carolina), stated that the crops of 1920 and 1921 yielded the individual farmer net losses of $362.00 and $497.00 respectively. Banks by the hundreds, and mercantile establishments by the thousands went into bankruptcy. If similar conditions had prevailed for another biennium, it certainly would have meant the complete collapse of the present economic order of the South.

These conditions precipitated another outburst of agrarian resentment and discontent such as characterized the seventies and eighties. The Federal Reserve Board was bitterly assailed for its re-discount policy. The railroads came in for their usual share of vituperation. "Wall Street" and "the Trusts" were again conjured up. Many southern states overthrew their dominant political organizations; some, in their exasperation, even went so far as to elect Republican governors.

Under such conditions was born the Texas Farm Bureau Cotton Association, and several thousand other similar farmer organizations. The roots of the movement reach far back into the agricultural history of the United States, but the immediate urge which gave both direction and scope to the new program was the price debacle of 1920.

During the latter part of 1919 a group of the more in-

telligent leaders of the South began another of those perennial attempts to "organize" the Cotton Kingdom. The dominant figures in this movement were Mr. John Scottowe Wannamaker and Colonel Harvey Jordan. The latter had been previously involved in several similar attempts, among them the ill-fated Southern States Cotton Corporation. It seems to have been the purpose of these leaders to create an organization along the general lines of that Corporation. The new organization was called the American Cotton Association. By the end of the year several states had organized and a call was issued for a national convention to meet in Montgomery, Alabama, on April 12th, 1920.

The story of that April convention records one of the most dramatic episodes of Southern history. By apparent accident—a casual invitation of an assistant secretary—Mr. Aaron Sapiro was brought to the meeting. The results of that invitation, and of the activities of Sapiro during the three days convention, are perpetuated in the score or more of powerful Southern coöperatives.

When he reached Montgomery, Sapiro discovered that he was not on the program. While there are some who will contend that it is not safe to put Sapiro on a program, no one will deny that it is dangerous to conspicuously leave him off. The convention was scheduled to begin its formal deliberations on the morning of April 12th. On the night of the eleventh Sapiro called the delegates who had arrived into informal session at the Gay-Teague Hotel. To this session he presented his now famous plan for organizing the American cotton farmers.

It would be impossible to understand the sweep of the coöperative marketing movement in the South without an appreciation of the peculiar powers of this young California lawyer. Sapiro had been intimately connected with the organization and operation of some of the most successful coöperatives on the West Coast. He had made a

careful study of coöperative marketing, both in the United States and in Europe, and had devised what is now known as the Sapiro form of organization.

Sapiro is a dynamic speaker. His ability to convince his audience of the soundness and importance of his proposals is almost incomparable. He is an able lawyer. He understands the weakness as well as the strength of his case, but is able to present the latter without having the former embarrass him. As a matter of fact, he presents just enough of the difficulties to convince the hearer of his complete candor, and not enough to damage his cause in the slightest degree.

Moreover, Sapiro undoubtedly had absolute faith in the panacea he proposed. His strange dominance of the coöperative marketing movement in the South may be attributed in large part to his tremendous earnestness. Here we had an evangelist of the very highest intellectual and emotional abilities who was able to convince his hearers of his own illimitable faith in the gospel he taught.

Probably no better statement of that gospel could be made than that made by Sapiro himself. I have heard him present his plan to a bankers' convention, to a state legislature, to a group of economists, to coöperative organization leaders, and to farmers in the field. His technique of presentation is quite formalized. In the first place he sketches a dismal picture of rural California during the first years of this century. Overproduction, low prices, poor country roads, inadequate schools, unkempt churches, women and children working in the fields—in short, all those social and economic ills to which we of the South have grown accustomed during the past sixty years, are passed in review. Then the new gospel, commodity coöperative marketing, is proclaimed. Through ten years of trial and error this process of marketing agricultural products is perfected. From local associations for

handling various local problems there gradually evolves the centralized marketing agency with its sole function, the marketing of one kind of agricultural product.

The evolution of the technique for organization and control of the associations parallels the development of new devices for performing the marketing functions. Mistakes are made. New and more economical contrivances are continually being substituted for the old and less economical. Occasionally an organization which refuses to learn from its own mistakes, or from those of others, passes from the field to be replaced later by another more carefully planned and more efficiently operated. By 1920 both the form of business set-up and the technique of operation are standardized.

The result of this new technique in the methods of marketing is pictured by Sapiro as having completely revolutionized rural life in California. Today, California (as every Californian freely admits) is the pride of the nation: "first in excellence of rural schools, and in salaries paid rural teachers; first in rural highway construction; first in welfare of rural churches, and in salaries paid rural ministers; and incomparably first in standard of living of the actual dirt farmers. Women and children do not work on the farms of California." [2] In short, commodity coöperative marketing has procured for the farmers of California all those social and economic advantages which so obviously have been denied the cotton farmers of the South for the past sixty years. The logic is irresistible: "Go thou and do likewise."

After this introductory statement of what coöperative marketing has done for the California farmer, and what (by inference and analogy) it may be expected to do for the cotton farmer, Sapiro presents what he calls the Fundamental Principles of his plan. These principles are eight in number, and are usually presented as follows:

[2] Speech of Sapiro before Economics group, University of Texas, 1923.

1. Organization of the association on a commodity basis.
2. Limitation of membership to actual growers.
3. Complete democratic control of the association by members.
4. Control of deliveries by means of a long term, legally-binding contract signed by every member.
5. Pooling of product according to grade; and basing returns to each member on the average annual price received for the pool to which he contributes.
6. Use of experts in all technical positions; and use of approved business methods at all times.
7. Orderly marketing of the product throughout the whole production period.
8. Control of a sufficient proportion of the entire crop to be a dominant factor in the market, and to make possible an economic distribution of overhead expenses.

After presenting these so-called Fundamental Principles Sapiro discusses the specific advantages to accrue to the cotton farmer through such a method of marketing. In this phase of his activities Sapiro becomes preeminently the evangelist. It is not sufficient to say that some of his arguments are very weak (though never weakly put), that his economics is faulty, that his arguments by analogy are not legitimate, and that his knowledge of the cotton trade is superficial. To this must be added that his knowledge of cotton marketing is sufficient to satisfy any but the expert; his analogy is so cleverly presented as to be usually accepted; his economic position is unassailable in its major redoubts; and the virility and versatility of his address is inimitable. As an economist he is usually right, rarely entirely wrong. As a dramatic speaker he is superb. As a logician he is diabolically clever. As an evangelist he is without a peer in the experience of the present writer.

By the time the convention formally assembled Sapiro was the dominant factor. After delivering an able address,

the president, John S. Wannamaker, appointed a number of committees; among them, one on coöperative marketing. This committee met that afternoon and invited Sapiro to meet with them to explain his plan in detail. Two other committees[3] whose members had heard Sapiro the evening before, asked permission to sit with them. After discussing the new proposal for several hours, three members were appointed from each of the three committees to consider the matter further, and to draft a report to be presented to the convention.

When this report was given to the convention at its last session, Sapiro, for the first time, was permitted to speak. His brilliant two-hour defense of his plan effectively demolished, for the time, all opposition. As this speech contains the most detailed and most comprehensive statement of the Sapiro proposal, and as it has furnished the framework upon which all the great coöperative associations of the South are organized, it is included here in full:

"THE SAPIRO PLAN
FOR COÖPERATIVE MARKETING OF COTTON
AS PRESENTED BY MR. AARON SAPIRO, OF SAN
FRANCISCO, CALIFORNIA
TO THE AMERICAN COTTON ASSOCIATION
IN CONVENTION AT
MONTGOMERY, ALABAMA

"Coöperative associations of producers are now handling and marketing farm products successfully all over the world.

"In America, the movement has made some headway, especially in California. In this state there are now over twenty state-wide coöperative marketing associations handling, packing, processing, manufacturing, and distributing over $300,000,000 worth of farm products a year.

[3] (1) Finance, Organization, and Membership; and (2) Warehousing and Insurance.

"Some of these associations represent foods, such as prunes, raisins, dried apricots, dried peaches, canning apricots, canning peaches, canning Bartlett pears, olives, lima beans, walnuts, almonds, etc., of which the greater part, or all, of the American production is in California.

"Other foods covered by these associations, such as alfalfa, honey, milk and its by-products, ordinary beans, apples, berries, are produced in huge quantities in other states. Some of these products are perishable, such as oranges and deciduous fruits. Others are semi-perishable, such as eggs. The great majority are non-perishable, such as nuts, beans, rice, alfalfa, dried prunes, dried apricots, raisins, etc., which can be stored and held for periods of two years and more without deterioration.

"These associations have façed every possible kind of problem: harvesting, warehousing, packing, processing, manufacturing, marketing and financing. They have done some of the things poorly; but they have done most of them well. They have at least established on every possible problem lines of precedents, whereon better work may be planned. Certain larger principles have been practically established by California's experience with coöperative associations:

"a. Coöperative marketing associations should include as members only growers or landlords who receive part of the crop as rent and thus have products to market. This is essential from both economic and legal principles.

"b. Coöperative marketing associations must have a certainty of products to market. They must, therefore, have the growers of a commodity tied up strictly under a long term contract, ranging from three to nine years. This gives an opportunity for proper marketing connections; development of expert personnel; handling of financial operations and building of plants.

"c. Coöperative marketing associations must pool the proceeds of the sale of products of similar grades and variety so that each member receives exactly the same as every other member for a similar quantity of products of like variety, grade and quality.

"d. Coöperative marketing associations must confine them-

selves to the one function of marketing the products of their members only. They must not attempt collateral lines, such as the purchase of supplies, etc.; nor must they market products for any persons except their own members.

"This is only essential from a legal standpoint.

"e. Coöperative marketing associations must have a large element of control in the marketing unit of the particular commodity. This control may range anywhere from 30 to 75 per cent, depending upon the commodity and the general marketing conditions.

"The marketing unit depends upon the commodity.

"The unit may be a state or the entire world, depending primarily upon the general demand for the commodity and the standard methods of marketing the same.

"If a commodity is marketed nationally, a local county marketing association is bound to fail. Such local associations cannot hope to affect the general market price nor save themselves from being swamped by competing local associations or by the disorganized producers.

"The marketing unit must first be determined and the minimum necessary for control must be calculated.

"The viewpoint must be developed from an orchard or a plantation to an industrial viewpoint.

"f. A coöperative marketing plan must concentrate the marketing and other problems through expert specialists. These experts must be sought wherever they can be found, to take charge of statistics, finance, organization, sales, warehousing, transportation, etc.

"When once the association is organized, it must be conducted from the standpoint of sheer efficiency.

"g. The coöperative marketing association which deals with non-perishable products must make possible the use of collective credit so that the grower may receive a substantial amount on delivery of product, even though a great portion of the crop be stored for distribution throughout the marketing year.

"h. The contract between the association and the individual grower must be standard, enforceable contracts. All members must sign the same agreement on the same terms. The

agreement itself must be ironclad and subject to enforcement by courts of the land.

"One of the interesting results of coöperative associations in California has been the increase in the value of lands producing crops covered by coöperative association.

"In the last four years, in almond, apricot, prune and peach lands, the increase in value has ranged from 60 to 200 per cent, attributable by the growers to no other cause than the stabilization of the industry through coöperative association.

"These figures cover only the years prior to 1919, which by itself is an abnormal year for prices and values.

"Another important effect of coöperative associations has been the stabilization of social conditions of the farmers within the industry. They gain a sense of certainty as to income and a broader and more intelligent view of their fellow-farmers and the common problems that confront them all.

"The soundness of coöperative marketing of farm products has been established, both in principle and practice, in California. It now remains to be established on a large scale throughout the United States.

"California's experience covers a period of over twenty-four years, with a great variety of experience, corrections, changes and improvements.

"Each association as it is formed absorbs all the experience of the existing coöperative associations. Thus the latest organizations are much improved in legal form, contracts, financing methods, etc., over the organizations formed five to nine years ago.

"Herein is outlined a general plan for handling cotton on a coöperative national basis, with the elimination of the gambling New York Cotton Exchange and with a minimizing of speculation throughout the industry.

"At the present time, the price of cotton is being established by manipulation and speculation, as well as by the illusory ideas of 'supply and demand.' This system, however, is not sound economically and is not wholly popular with the cotton growers or the manufacturers. It possesses neither stability nor sane merchandizing method.

"The operations of the Non-partisan League in North Da-

kota and other states have colored the political power of the state into an expression of the farm-producing classes alone. The North Dakota system, with the establishment of state-owned elevators and a tendency toward collective handling of products, operates through the *state* as a political unit and not through the grower groups, as economic units.

"The California plan of coöperative associations provides the necessary means for securing just and stable prices for the farmer without the necessity of resorting to political revolution.

"This phase is of primary importance to men who take the broad view of industrial and political conditions and feel part of the responsibility of the state on their individual shoulders.

"The existence of many coöperative ginneries and coöperative warehouses throughout the United States indicates that some farmers are acting in a collective way on part of the cotton problems.

"Every great product like cotton must have its own *marketing* association. The growers, the manufacturers and the public are entitled to be protected against speculators and the great cotton industry of America is entitled to be stabilized and to be placed on such a sound basis that manufacturers as well as growers may be able to calculate in advance and to treat their problem like legitimate business.

The Plan

"(A) Organize in fourteen cotton-producing states, a non-profit, coöperative marketing association, without capital stock, hereinafter called the Association, such as the Alabama Cotton Growers Association, and a corporation with capital stock, hereinafter called the Corporation, such as the Alabama Growers Warehousing Corporation, for establishing, classifying, storing and processing the cotton of the Association only.

"Variations will have to be made in details of the Association and the Corporation wherever state laws differ. Adjustments of this kind are simple and easy.

"The Association will admit to membership any cotton

grower and landlords and tenants, wherever the landlord receives cotton for rent.

"All growers will have equal voting power and equal property rights in the Association.

"In each State Association, provision should be made, where feasible under the laws, for the appointment of one Director by the Governor of the State, so as to represent the general public interests.

"(B) Every member of the Association will sign a Marketing Agreement with the Association, whereby the Association (in each State) will acquire *title* to the grower's cotton, purchasing the same for the resale value thereof, less the costs of operating the Association and less the charges under the "cross-contract" hereinafter described. The Association will be given such sale power to handle and market the cotton produced by the growers for a period of seven years, beginning with 1921.

"(C) The Association will agree to establish an inspecting, grading and classifying system and, subject to the laws of the various states and the United States, will handle all of the cotton delivered by the growers, on the basis of graded quality pools within each state.

"Each grower within the State will receive, under this agreement, the proportion of the season's receipts from the sale of cotton of any particular variety and of any particular grade within that variety, as established by the Association, as his deliveries in that grade bear to the total deliveries therein.

"This plan contemplates the use of collective credit. The State Association will get title to the cotton by the sale for a price not fixed but indicated by a definite method.

"Thus the Association will be able to borrow money on the cotton on *standard* terms and conditions and to distribute, as an advance payment to the various members of each pool, by grade, the loan margin allowed on the commodity by the bankers, and particularly, the members of the Federal Reserve System.

"The credit will be standardized through this method. The Associations will be able to *merchandize* cotton instead of

being compelled to dump it on the market at the low ebb, to the advantage of the speculator only and to the loss of the farmer, merely because of temporary needs on the part of the farmer-groups at the time when the market can best be manipulated downwards. Over 70 per cent of the crop usually leaves the control of the grower during three months of the year. These are the months immediately after harvest when the market is overloaded. The speculator buys and stores the cotton until that market is reached which the grower himself could utilize if he only had storage and market power.

"(C) The Corporation will have common capital stock and preferred capital stock.

"Subject to minor variations, because of differences in state laws, the common stock will be in a nominal amount, ranging from $500 to $10,000 and all of this common stock will be issued to the Association as a whole, in consideration of the guarantee cross-contract to be later explained. This block of common stock shall be held permanently by the Association and shall not be distributed to the members thereof.

"This common stock will have full voting power.

"These provisions will insure complete control of the Corporation in all its activities, by the Association, as such, or through its identity of members and interests. The officers and director of the Association and Corporation in each State should be identical, wherever the laws permit.

"(D) The preferred stock will be in seven classes, a, b, c, d, e, f, and g, all bearing identical preferences, including 8 per cent cumulative dividends, differing only in the date of retirement, one class being subject to compulsory retirement annually, beginning with December 1922, at par, plus a bonus of $2.00 per share and accumulated dividends.

"This preferred stock will be sold or issued in exchange for cash or for existing friendly ginneries, compresses or warehouses or such other physical properties as the Corporation may require.

"Where there are existing coöperative associations conducting ginneries, compresses or warehouses, there will be no practical difficulty in making such an exchange on appraised values.

"(As a matter of fact, many prune-packing plants in California were acquired from independent packers for the Growers Packing and Warehousing Association, Inc., a subsidiary of the California Prune and Apricot Growers, Inc., primarily by the issuance of preferred stock, along the plan here indicated.)

"Each year one class or one-seventh of the preferred stock will be retired, thus reducing the amount of possible non-grower capital in the plan. At the end of seven years there will be no outside capital whatsoever represented therein and all of the physical value will be absorbed into common stock owned by the Association only.

"Through this plan, the preferred stock will be repurchased by the Corporation by deductions from the cotton of the growers. Each grower will be credited with his proportionate deduction, as an advance to the Association. These advances will be cumulated over the period of years. The grower will be paid 7 per cent interest thereon annually. If the grower ceases to grow cotton, or if the Association dissolves, each grower will receive his proportionate repayment of such advances, based on the then cash value of the physical properties represented by the Corporation.

"You may wonder why a Corporation is formed separate from the Association.

"An organization of this kind will become a technical monopoly and might be subject to attack under the Sherman Anti-Trust Act, if it had capital stock.

"The Clayton Amendment to the Anti-Trust act expressly exempts farmers marketing associations not organized for profit and not having capital stock. The Association which is engaged in interstate commerce and thus comes under the Federal Law, has no Capital Stock and is exempted.

"The Corporation which has capital stock does no marketing. It simply handles cotton physically and does not come under the laws relating to restraint of interstate commerce.

"As a basis for collective credit, the Association must be able to use warehouse receipts as legal collateral. It cannot issue the warehouse receipts itself on its own products and therefore must establish the Corporation as a separate legal

entity, with power to issue warehouse receipts to the Association for the cotton of the Association.

"Incidentally, the Corporation will conduct a large public warehouse system, on a non-profit basis (but charging standard fees wherever a state law requires such public utilities to do so;) and may make proper arrangements, by a general cross treaty with other coöperative associations, for handling, at a later date, other products besides cotton.

"(E) The Marketing Association and the Corporation in each state will then make a *cross-contract,* whereby the Corporation will agree to receive, gin, grade, classify, press, process, handle and warehouse all of the cotton to be delivered to it by the Association; secure all the necessary supplies therefor and do everything connected with the physical handling of the cotton, as directed and instructed by the Association.

"The Association will contract to pay the Corporation for such services—

"(a) The costs of operation; taxes; insurance; depreciation; costs of betterments and improvements; an amount required for dividend on issued preferred stock; and an amount required for retirement of one class of preferred stock annually, beginning 1922.

"Other than these payments, the operation of the Corporation would be on a strictly non-profit basis.

"(F) The Standard Marketing Agreement with the grower will provide for such a contract between the Association and the Corporation.

"By this means, the payment of the dividend and of the principal of the preferred stock is guaranteed by the Association, and through the Association, by all the cotton moving for sale under the marketing contract. Thus, the obligation to pay dividends and retire preferred stock is guaranteed by a minimum of at least 30 per cent of the cotton of the South each year.

"Such preferred stock so guaranteed is safer than most bond issues floated in the United States. It should be readily salable throughout the South, to bankers, merchants, in-

vestors and friends of the movement, always at par and practically without greater cost than postage stamps.

"It is probable that each community will be able to absorb by purchase enough preferred stock to take care of the probable expenditure for buildings, warehouses, etc., in that community.

"In any event, this method provides a way, through which money can be easily secured from the public at the start, when the grower associations need the money, without risk of any kind to the investor. The grower guarantees the investment, and amortises the cost of the buildings by deductions from his cotton for a period of seven years.

"The Corporation will not necessarily attempt to fill a maximum program right at the start. It will probably build a few standardized plants at a few central points and expand as rapidly as possible by purchase or lease of existing plants or by construction of new plants, as its probable sales of stock and expert personnel warrant. This method of financing was originated by H. G. Coykendall, General Manager of the California Prune and Apricot Growers, recognized as probably the ablest dried fruit salesman in the world.

"(G) The Association, however, will retain title to the cotton and will do everything connected with the marketing thereof.

"Neither the grower, as an individual, nor the Corporation as such, will have any share in the marketing problems.

"The marketing will be conducted by the Association, of which only growers are members. The Board of Directors will be, in every instance, cotton growers, whose every decision affects their own cotton as well as the cotton of their fellow-growers.

"All operations requiring the services of experts will, of course, be conducted by expert specialists employed by the Association, under the supervision and instruction of the National Exchange.

"(H) It is obvious, however, that cotton is not to be handled as a state product. The commercial conditions depend upon the world markets and upon world production.

"Therefore, the cotton marketing problem must be nationalized.

"The original Marketing Agreements between the Grower and the Association will provide that the Association may market the products through a National Cotton Exchange, as Attorney in fact for the Association under standard agreements, the procedure being summarized in the Marketing.

"(I) The National Cotton Exchange will be composed of one representative from every state-wide cotton growers association and an additional representative from each State Association for every 500,000 bales of cotton or major fraction thereof, controlled by the Association in 1921.

"The representation will be subject to adjustment *annually* on the basis of the amount controlled by each Association.

"This National Exchange will meet quarterly, or more often if necessary, and will conduct its actual business through the medium of an Executive Committee of seven of its members, together with a General Manager and other officers or agents to be selected by the Exchange. The President and General Manager will be ex-officio members of the Executive Committee.

"Three members of the National Exchange should be appointed by the Secretary of the Department of Agriculture, if he chooses so to act. One of these members should be elected a member of the Executive Committee.

"These appointees will be representative of the interests of the public as such and will voice the viewpoint of the consuming public as well as the agricultural interests on all matters.

"The Federal Reserve Board should be given the opportunity to appoint one member of the National Cotton Exchange, to represent the public banking viewpoint on all financing problems.

"The Federal Trade Commission should be given the right to appoint one representative on the Exchange to represent the obvious viewpoint of commercial proprieties.

"(J) The Exchange will be given a legal agency to represent all of the State Associations, through their individual representatives or otherwise, in the marketing of the cotton products.

"The Exchange will have headquarters at any central city, and from that point coördinate all the problems and activities concerned with the growing, grading, classifying, pressing, processing, warehousing and marketing of cotton, for domestic use and export.

"The Corporations in each state, controlling the ginning, grading, classifying, pressing, processing, storing, and warehousing of the cotton, will be subject to the direct control of the State Association.

"The National Exchange will control the Corporations through the State Marketing Associations, as above set forth.

"(K) The Exchange would operate from its central office, through the Executive Committee, General Manager and Department Managers. The work will probably be departmentized along the following lines:

(a) Production and Field Service;
(b) Pressing and Warehousing;
(c) Handling, grading, classifying;
(d) Processing;
(e) Supplies;
(f) Organization;
(g) Statistics;
(h) Law;
(i) Financing;
(j) Transportation;
(k) Sales;
(l) Executive Control; General Manager.

"Each one of these departments will have its own adequate manager, specializing on the work of his department.

"(a) The Production and Field Service Department will have charge of problems of production, primarily in an advisory capacity, giving scientific instruction in reference to the proper planting and expected yield of the particular varieties of cotton and the proper manner of planting and harvesting the same in each State.

"This Department will also have charge of rotation of crops, extent of planting of other crops and problems concerned with acreage.

"(b) The Department of Handling, Grading and Classifying will work in conjunction with the various State Corporations and act as a supervisor over them. It will establish the necessary grades and settle the various problems indicated by its title.

"This department, together with the Financing Department, will handle the insurance problems, unless the Exchange carries its own insurance.

"(c) The Department of Pressing and Warehousing will handle the problems of high density compressing, standard warehouses, methods of construction of all plants, location of plants; preparation of bale-samples; standardization of tags and receipts; handling of all problems that usually arise in the storing of cotton.

"(d) This Department of Supplies will undertake the collective purchase and distribution of such supplies as the National Cotton Exchange may require, either directly for the Associations or for the Corporations, as such.

"(f) The Organization Department will have charge of the work of securing members in every state and coördination between the Corporations and the Associations; coördination between the various State Associations and the Exchange; the preparation of material for the Cotton Association Weekly; and all manner of advertising and publicity.

"(g) The Statistical Department will maintain agencies all over the world, to secure proper information, with the aid of the existing government and commercial agencies and otherwise.

"(h) The Legal Department will have charge of all legal problems, contracts and forms; supervise in general the law work of State Associations and Corporations; also advising on cross-relations with other Associations for use of physical facilities of Associations, of the Exchange; observe and advise on legislative problems, both state and National.

"(i) The Financing Department will have charge, in an advisory way, of the auditing and systems used in the State Corporations and Associations; and, in a direct way, of the financial problems and methods of the Exchange; of the matter of stabilizing loans, collateral and commercial paper in-

volved in the production, warehousing, shipping and marketing of cotton and cotton products.

"(j) The Transportation Department will have charge of all transportation problems, both inland and steamer; rates; accommodations, delivery points; sheds at shipping points; care of cotton in transit and all pertinent problems.

"(k) The Sales Department will have complete charge of sales, both domestic and foreign. A great part of the sales should be on standard contracts directly to spinners and manufacturers.

"(l) The Executive Department will coördinate and supervise the work of all other departments.

"(L) The Associations will encourage the formation of a corporation authorized in the Edge Act to facilitate the financing of export sales. Such a corporation should have a substantial capital and should be given a written guarantee by the National Cotton Exchange that all of its financing of export sales will be conducted by and through this Cotton Auxiliary Corporation. This Auxiliary Corporation, in consideration of such agreement, will agree that all profit made by the issuance of paper as against export sales, over and above 8 or 10% per annum, shall be distributed back, as a matter of contract-right, to the Exchange, to be divided ratably among the pools within the Associations.

"This limitation of profits is thoroughly fair, inasmuch as the profits are practically guaranteed by the agreement to permit the Auxiliary Corporation to control the financing of all export sales.

"This arrangement will practically insure dividends for the stock of the Auxiliary Corporation. It should, therefore, not be extremely difficult to persuade the local intelligent bankers, who possess both knowledge and vision, to underwrite the stock for such a plan.

"This Auxiliary Corporation should be worked out with the active assistance of men like Governor Harding of the Federal Reserve Bank.

"(M) This general plan will enable cotton to be scientifically marketed by representatives of the farmers producing cotton.

"It will enable the farmer to get the legitimate price for his product and to control the commercial marketing, so that the consumer will not have to pay the price put upon the cotton, by the old speculative manipulation.

"Coöperative associations, in their general operations, have tended always to standardize the product as to quality and methods of handling and to *stabilize* the prices for the farmer, the manufacturer and the consuming public.

"This tendency is automatic, inasmuch as a disproportionately high price induces too many farmers to go into the same line of production and causes over-production, with the resulting collapse of price. In addition, high prices discourage consumption and it is essential for a coöperative association to have its entire crop absorbed annually and to depend upon small profits on volume rather than wide margins.

"(N) The problems here involved are huge. The financing problem alone will take the coöperation of many banks.

"The coöperation of banks is being secured by the Coöperative Associations of California. In one year, the California Prune and Apricot Growers, Inc., alone arranged for a credit of $10,000,000.00 at the lowest rates ever obtained by a group of growers in the United States, upon its warehouse receipts, and trade acceptances and bankers acceptances.

"The banks are beginning to handle this business. The Federal Reserve officials are studying the problem and the most intelligent of the banking groups are paying extreme attention to the advantages of this new form of business over the old system, where they dealt with individual farmers and indiscriminate marketing arrangements which meant any kind of value for the collateral product, without stability.

"(O) Is this undertaking possible?

"The first need of a coöperative association is a clean, good plan.

"I am certain that a plan, sound from the legal, marketing and financing standpoints, can be worked out along the general lines here set forth.

"Every single thing in this plan is being done by some one of the coöperative associations on the Pacific Coast. The Oregon Growers Coöperative Association and the Oregon Growers

Packing Corporation, and the Oregon Dairymen's Coöperative League have also adopted plans generally similar as to the *State* organizations and the financing method by the use of classified preferred stock.

"Opposition will be urged against this general plan, primarily by the big speculators and gamblers.

"There will be the natural opposition from hard-shell conservatives who do not approve changes in existing conditions.

"Many farmers will object to various points of detail in any general plan and may refuse to join on such account.

"It is not expected that every farmer in every State will join the plan.

"If, however, half of the cotton farmers in practically all of the very important cotton states join, adequate control of the general market can be secured.

"In California, the experience has indicated that with anything over forty per cent, the market can be dominated by a coöperative association for the common good of the farmer and the public.

"With a control of that kind, it will be possible for the National Cotton Exchange to practically dominate the cotton market and to secure full and reasonable returns to the growers, under all fair circumstances without a single cent of increased cost to the consumer.

"Heretofore, the farmer has sold his cotton on a market made by various elements, in which he has had practically no voice. He may have been able to get the market *price*, but he has had no share in *making* that price fair and reasonable.

"With 40% of the cotton, the farmer can actually make the price, as has been amply demonstrated by the experience of the associations in California. The public will benefit by the stabilization of the industry and by the increased production that inevitably follows the certainty of fair returns assured by coöperation.

"The aim, however, would be to get at least one half of the cotton acreage in all of the cotton states tied up under a general coöperative plan.

"(P) Can the proper personnel be secured to work out the plan?

"Coöperative associations have never yet failed to find the big men to carry on their big work.

"The handling of these huge problems demands fair returns. In California, the State coöperative associations pay anywhere from $10,000.00 to $30,000.00 per year, as salaries to their Managers. In some instances they have a bonus in addition.

"The various Department Managers of an association of this kind will be entitled to salaries consonant with the enormity of the problems and the responsibility of their decisions. But if they were paid collectively a million dollars a year, they will not be paid a hundredth part of the value that efficient men in such positions will add to the returns of the farmers without a single cent additional in cost to the consuming public.

"For the Head of the Financing Department, any important banker of the country will not be too big to take the place. The position will demand every bit of intelligent power and energy within him and will add to his importance and prestige in the financial world.

"Care will be necessary as to personnel, but the personnel exists and is available.

"Men are handling large marketing problems for speculative concerns. There is no reason why similar men, or the same men, cannot be secured for coöperative associations.

"Coöperative associations in California have been able to engage the ablest possible talent in the United States for marketing their products and for handling the physical problems in the packing, manufacturing and warehousing lines.

"Coöperation among farmers produces larger available funds with which to engage talent than any speculative group of food handlers can possibly represent.

"(Q) Can this marketing plan be made a reality?

"Can the plan be carried out?

"Every cotton-producing state will have to be organized as a separate unit. A study of the laws of each state must be made, to discover the necessary variations in the documents of the Association and of the Corporation to conform to peculiar statutes of the states.

"Then, within each state, when the documents are prepared,

a State Organization Committee will have to be formed. The State Organization Committee will then engage State counsel and a state organizer, in the usual way, and proceed with the organization work, as with a Liberty Loan Campaign.

"All of the prominent farmer groups and the prominent bankers in the farm districts can be easily enlisted in behalf of these associations. The newspapers will have to be handled from both a financial and communal standpoint.

"A National Organization Committee will be appointed by the American Cotton Association to supervise the work of all the States; and in general to organize and standardize the campaigns under expert specialists, conforming to local conditions, as was done in the various national drives during the Great War.

"For the National Organization Committee, counsel must be attached to supervise the work of all of the state counsel; to check up all forms and contracts to assure that the necessary contractual terms are standardized into every state contract and that the necessary power is given legally by each state organization to the National Cotton Exchange.

"The work could be commenced by September 1920, by special State Organization Committees, of which the members would be the most prominent cotton men in each state, together with the most influential men in the existing farmers organizations.

"Within each State Organization Committee, County Organization Committees should be formed, with the most prominent growers in the counties and at least one banker and one editor or newspaper man as members.

"Competition could be created between the counties for the purpose of getting the largest proportionate sign-up. In addition, competition could be encouraged between states to secure the leading proportion; and charts should be shown with relative figures indicated, just as with the Liberty Loan Campaigns.

"The money required for organization can best be secured by the original organization fees, charging every grower a fee of $20.00 per member. It is estimated that the cost of organization will be between $5.00 and $7.50 per year. For safety's

sake, the organization fee should, therefore, be $20.00 per person. It is highly probable that a great many growers will not want to pay the cash at once upon joining. Provision should be made that in such cases the organization fee shall be deducted from the first proceeds payable to the grower under the standard marketing agreement.

"Of the organization fees, one-fourth should be payable directly to the American Cotton Association for the National Organization work, and three-fourths to the State Association in the state of origin for local organization work.

"At the very start it will be advisable to have an initial fund subscribed in an amount not less than $100,000.00. This amount can best be secured by subscriptions from wealthy men in the South, under the express condition that these subscriptions shall be considered donations if the minimum quota is not obtained; but if the minimum quota is obtained, then these subscriptions shall be repaid to the subscribers in preferred stock ratably apportioned among the various warehouse corporations.

"These amounts will belong to the State Associations and be expended within the State, excepting that each State Association will have to allot one-fourth to meet the expenses of the National Organization Committee for the work.

"Then each State Organization Committee will have to organize the local campaign with adequate publicity, speaker's meetings, personal visits, and solicitation through official bodies and farmer organizations.

"You can also find out, by inquiry, the important cotton growers in every state, with special mention of those who have shown a broad spirit of coöperation and organization during the late crisis.

"If the National Organization Committee were to undertake this work with men of real ablity, there would be no difficulty whatsoever in enlisting the active support of men within the various States for the state operations.

"(R) The marketing of cotton is the largest problem of America. I believe that no greater service can be done for the farmers of this country than organization for the scientific marketing of this national product, without specu-

lation legally and effectively for themselves and the consuming public.

"Coöperative marketing will mean the removal of mortgages and the substitution of savings accounts for growers and every other element of the cotton Industry and the communities primarily dependent on cotton.

"This entire program will be introduced as the Marketing Division of the American Cotton Association.

"The American Cotton Association will be maintained and strengthened to its utmost possibilities. It will continue to be the central meeting ground for bankers, merchants, public men, and all others of the South who are sincerely interested in cotton problems or in the prosperity that the South should enjoy with a proper handling of its major crop.

"The American Cotton Association should issue a weekly or semi-monthly magazine, of substantial size and dignified character, owned and controlled solely by the American Cotton Association.

"This magazine should represent for the National Cotton Exchange what the so-called house organs represent to the various coöperative marketing associations in California.

"A provision should be inserted in the standard marketing agreement whereby 50 cents a year shall be deducted as a subscription to this paper. This will secure second class rates in the Post Office requirements.

"The paper will print all matters of interest to members of the State Cotton Growers Associations; the National Cotton Exchange; and further, any data or articles bearing generally on the cotton industry or upon the social or other problems of the cotton growing districts of America.

"Magazines of this kind have been more than self-supporting in California. Advertising of a very high character seeks this medium. No political or stock sales advertising or questionable advertising of any character should be considered. Manufacturers of tractors, farm implements, automobiles, tires, auto accessories, generally used foodstuffs, things applicable to cotton production and handling, as well as banks and insurance companies will be eager for an opportunity to present their claims to all the cotton growers represented by

the State Associations and to all the interested public represented by the non-grower membership of the American Cotton Association.

"This magazine will unquestionably create a large surplus each year and support all the other activities of the American Cotton Association, including the expenses of annual conventions in this country and the sending of delegates to the world cotton conference.

"In this way, the American Cotton Association will enlarge its prestige and secure a more permanent standing than any other method could achieve for it.

"All members of the State Associations and all stock holders in the State Corporations would automatically become members of the American Cotton Association.

"It is my conviction that this plan for marketing cotton on a coöperative collective plan, from an industrial or national viewpoint, can be put into effect within a full year; and that the men who accomplish this will have performed the greatest services to the South that the South has ever experienced."

(Dated at Montgomery, Alabama, this 14th day of April, 1920.)

(Signed)

. . . . . .

Upon the conclusion of Sapiro's speech, the report of the committee was unanimously adopted. The President immediately appointed the committee on coöperative marketing provided for in the report. For this committee he selected a notable body of men. Every group interested in the cotton trade and every cotton state was represented.[4]

[4] D. S. Murph, Specialist in Cotton Marketing, U. S. D. A. Washington; A. F. Lever, member Federal Farm Loan Board, Washington; J. F. Duggar, Director of Extension, Auburn, Ala.; Bradford Knapp, Dean and Director College of Agriculture, Fayetteville, Ark.; Clarence Poe, Editor Progressive Farmer, Raleigh, N. Ca.; W. P. G. Harding, Governor of the Federal Reserve Board, Washington;—the above were members at large. Members to represent states: L. L. Hardin, Pres. Bank of Columbia, Columbia, So. Ca.; S. G. Rubinow, Asst. Director N. Ca. Experiment Station and Extension Service, Raleigh, N. Ca.;

This committee met on the 14th and organized with D. S. Murph, Chairman, and S. G. Rubinow, Secretary. It decided to hold another meeting in Memphis on May 17. In the meantime each member was expected to study the Sapiro Plan in detail and be ready to pass judgment upon its feasibility. In order to subject it to the most searching analysis the Chairman assigned each specific proposal to one member for his particular consideration; and all agreed to study it as a working whole.

During the intervening month the members of this committee were in constant communication with each other, and with other important leaders of the South. There seems to have been an honest, though ineffectual, attempt made to iron out all differences of opinion on the fundamental issues. But when the members began to study the Sapiro Plan divested of the spell of the Sapiro personality, some found it not to their liking at all. Consequently, when May 17 arrived, instead of substantial agreement on one plan, there were five plans submitted for consideration. These were designated by the names of their authors: (1) the Sapiro Plan; (2) the Carl Williams (or the Oklahoma) Plan; (3) the Harvey Jordan Plan; (4) the Duggar Plan; and, (5) the Felsenthal Plan.

These plans disclosed a serious, and, as we now know, a permanent line of cleavage in the basic philosophy of two groups in the committee. This must not be under-

F. O. Hooten, Bureau of Markets, Montgomery, Ala.; L. B. Jackson, Director State Bureau of Markets, Atlanta, Ga.; R. S. Wilson, Director of Extension, Ag. College, Miss.; L. M. Rhodes, State Marketing Division, Jacksonville, Fla.; D. E. Lyday, Vice-president of the Texas Division A. C. A., Austin, Texas; Adolph Felsenthal, Merchant and farmer, Camden, Arkansas; Carl Williams, Editor Oklahoma Stockman-Farmer, Okla.; C. B. Barnes, farmer, Marston, Mo.; Lem Banks, Lawyer and farmer, Memphis, Tenn.; Capt. E. H. Teale, Colfax, La.; W. S. Stevens, Phoenix, Arizona; J. S. Wannamaker, ex officio member, St. Matthews, So. Ca.; Col. Harvey Jordan, ex officio member, St. Matthews, So. Ca.

stood to mean that there were two distinct organized groups in the committee. The division was more basic. There were two clearly distinguishable theories of the functions of a coöperative marketing association. This was disclosed as soon as the plans were submitted.

While they differed as to many minor details, the Sapiro and the Williams Plans were fundamentally similar, as also were the Duggar, Jordan, and Felsenthal. The underlying assumptions of the first two have been given at length. The other three differed from them in the following essentials:

(1) They considered the "iron-clad" contract unnecessary, and, for the present at least, impossible.
(2) They proposed small local associations grouped about the gin, warehouse, or local market.
(3) They provided for the ultimate grouping of these small associations into larger units, state or national, but with the actual control of sales vested in the locals, or, as provided in the Felsenthal Plan, with the individual member.
(4) More important than either, or all, the above is the omission from all three plans of any reference to an attempted control of the general market price. Sapiro had said, "Coöperative marketing associations must have a large element of control in the marketing unit of the particular commodity. This control may range anywhere from 30 to 75 per cent . . . a local county marketing association is bound to fail. Such local associations cannot hope to affect the general market price." The issue here was clearcut and unavoidable. To Sapiro and his adherents the plan for autonomous locals, each independently making its own sales, and competing with every other one, was anathema. To the group led by Jordan, Duggar, and Felsenthal the creation of a huge central association, with its local branches, central control of sales, and iron-clad contract, was ridiculous.

After a week of persistent and arduous attempt to reconcile the irreconcilable, the committee decided that the case was hopeless. A sub-committee [5] was appointed to continue the attempt and to prepare a report for submission to the American Cotton Association; and a set of rules was drawn up to guide them.[6] The personnel of this sub-committee and the nature of these rules practically determined that the report would fol-

[5] Lever, Jesness, Poe, Rubinow, Jordan, Duggar, and Murph, Chairman.

[6] "Some Principles to be Considered for Drafting the Report of the Committee on Coöperative Marketing:"

(1) Propose simple first steps, immediately practicable.
(2) Make provision for larger ultimate plan.
(3) Begin with local units which can operate regardless of success or failure of larger plans.
(4) Eliminate any buying plan or speculative risks.
(5) Make possible the gradual evolution of a national plan.
(6) Utilize any existing agencies which perform a real service economically, and eliminate all others.
(7) Encourage contracts between locals and their members.
(8) Include coöperative features wherever possible, in order to evade the Anti Trust Acts.
(9) "Selling agencies to be limited at first chiefly to local organizations as directed agents." Later these to be developed so that they could "progressively pass control of cotton to local or regional selling agencies."
(10) Carefully select "language in public report so as not to emphasize control or even creation of an ultimate national selling agency."
(11) Provide for three steps in the development of coöperation on a national scale: (a) coöperative warehousing, classing, and handling of cotton, with local development of uniform types; (b) coöperative local selling; (c) coöperative selling on a larger scale.
(12) Provide that all agencies be organized by the American Cotton Association and be under its auspices.
(13) Make provision for cotton under lien.
(14) Develop a flexible type of organization suitable for diverse local conditions.
(15) Devise means for financing coöperatives and their members, when necessary, through the Association.
(16) Suggest more economical methods for baling and handling.
(17) Enumerate necessary state and national legislation.

low closely the lines proposed by Jordan, Duggar, and Felsenthal.

Suddenly during the last days of August the President of the American Cotton Association issued a call for a general convention to meet in Montgomery, Alabama, on September 1. Between July 21 and September 2 the price of Middling cotton on the New York Exchange dropped 12 cents a pound, or $60.00 a bale. The Government report on the condition of the crop issued August 25, together with the tremendous increase in acreage, had indicated a production two or three million bales in excess of the early season expectations. Europe was suffering from the worst financial crisis of a half century. The general business depression had hit the United States. There was an evident prospect for an appalling collapse of the cotton market.

Under such condition the American Cotton Association assembled for the second Montgomery convention.

The Secretary of the Committee on Coöperative Marketing received notice of the meeting only a few days before it was to occur. He hurriedly gathered two or three other members and they drafted a report embodying the results of their four months labors. The endorsement of other members was obtained by wire, and in person when the convention assembled.

In this report the Committee outlined the chief defects of the traditional marketing system, and proposed a remedy. The defects according to their count were:

(1) An almost complete lack of attention to marketing.
(2) Dumping of cotton during the harvesting season.
(3) Carelessness in ginning, baling, and handling of cotton.
(4) Wide variations in prices for cotton of the same grade.
(5) Failure of longer staples to command a sufficient premium, or in fact any premium at all.
(6) Failure of the higher grades to command a sufficient premium.

(7) Difference between prices paid by the textile mills and the prices received by the farmers.[7]

The remedy for these evils according to the committee was coöperative marketing. The form and business set-up of the organization proposed was a composite of the plans of the local unit advocates. The structure was to be built "from the bottom up." County and community associations were to be organized immediately. Later these might be federated into state or even interstate exchanges. But the significant controls were to remain with the locals.

The functions to be performed by these locals were quite extensive. They should (1) promote the production of uniform and superior varieties of cotton on a community basis; (2) construct and operate warehouses; (3) collect and disseminate market information; (4) grade and class members' cotton; (5) make pools of even running grades and staples; (6) provide expert salesmen to sell their product; and (7) secure larger outlets both at home and abroad.

"Undoubtedly this committee represented the general opinion of the South at the time of the meeting." [8] However no serious attempt was ever made to organize associations according to the proposed plan. Sapiro had run away with the movement. In three states active preparation had already begun for commodity organizations of the centralized type advocated by him; and during the next two years every state of the South followed them.

So the careful and painstaking report of the committee which under a different set of circumstances might have become the foundation for the new economic structure of the Cotton Kingdom was quietly laid to rest. The whole direction of the movement toward a new control of the cotton industry was changed by one man.

[7] Report of the American Cotton Association Committee on Coöperative Marketing, p. 16-19.

[8] Cotton Marketing, by A. B. Cox, p. 120.

CHAPTER III

THE COMMITTEE OF 21 AND THE DOCUMENTS

THE Texas delegation to the first Montgomery Convention was tremendously impressed with the story told by Sapiro. Upon their return they immediately began to canvass the possibility of forming a statewide organization for coöperatively marketing Texas cotton. There were many serious difficulties to be overcome. In the first place, no one knew exactly what form such an organization should take. No one knew the technique of forming such an organization. There was no machinery in existence for assembling public opinion on the subject. There was no recognized, authoritative leadership. On the other hand, there were various farmers' organizations already in the field, each with its own leaders jealous of their positions.

In addition to these difficulties, largely technical, there were many others, much more deep-seated and fundamental, scarcely foreseen at the time. These made their appearance as soon as the movement was launched. The most serious, of course, was the mental make-up of the farmer. The Texas cotton farmer is intensely individualistic. He has always prided himself upon his independence. He is suspicious of all organizations. The Grange, the Alliance, the Farmers Union, and a score of others, each in turn, has offered its panacea with no appreciable result so far as he can see. Consequently, any new proposal of a similar nature would certainly meet a vast weight of passive resistance.

Then, too, the old ways were deeply entrenched. The

entire economic structure of the South was based on the traditional method of marketing cotton. The tenancy system, the methods of providing production credit through small banks and time merchants, and the whole machinery of crop mortgages and annual liquidation of loans had grown up with the marketing system. All had become inextricably interwoven into a hard and fast economic order. As the coöperatives are just now discovering, the proposed revolution in the marketing system would inevitably force a revamping of the entire structure superimposed upon that system. This means that a vast majority of the farmers would find it utterly impossible suddenly to change their marketing practices, even should they become convinced of the desirability of such change.

And, of course, there would be active opposition on the part of individuals who saw, or thought they saw, their financial interests endangered by the new order. This list would include many members of the cotton trade, factors, exporters, large and small merchants, as well as numerous country bankers, merchants, warehousemen, ginners, cotton buyers, and private money lenders.

In 1926, discussing these foreseen and unforeseen difficulties, one of the strongest of the coöperative leaders earnestly assured the writer that no man in the movement ever would have undertaken the work had he appreciated the extent of these difficulties in 1920. I am convinced that he spoke the truth. The desperate plight of the cotton farmers of the State in 1920-21 and the tremendous enthusiasm engendered by the first Montgomery convention literally swept the leaders into a movement which ran like prairie fire across the Cotton Kingdom.

The first tangible result of the Montgomery Convention appeared in the organization of the Texas Farm Bureau Federation in June 1920. Headquarters was established in Dallas with Mr. John T. Orr as president, and

Mr. C. O. Moser as secretary. An active drive for members was launched. In this the Federation had the support of the Texas Agricultural and Mechanical College through its Division of Extension, and its county agents. Within the next few months, 15,000 members had been secured, and local organizations had been formed in thirty counties.

The Texas branch of the American Cotton Association was absorbed by the Federation through an agreement between the officers of the two organizations. It was understood that a State coöperative cotton marketing association would be organized, and that members of the Federation would be allowed to join without paying an additional membership fee.

During the fall of 1920 the officers of the Federation secured the coöperation of the Farmers Union, and of the United Cotton Growers of America, in anticipation of the coming attempt at statewide organization. Mr. Orr, President of the Federation, called a joint conference of the leaders of all three organizations. This meeting convened in Waco, November 16, 1920, and included most of the influential farm leaders of the State.

An agreement was here made by which the Federation absorbed the United Cotton Growers of America on the basis allowed the American Cotton Association. At the same time the Farmers Union pledged its support to the proposed cotton marketing association. A committee of 21 [1] was appointed to work out details of the plan of organization, and to conduct the membership campaign.

[1] J. T. Orr, Dallas, President of the Texas Farm Bureau Federation, and member of the executive committee of the American Farm Bureau Federation; D. E. Lyday, Warehouse and Marketing Commissioner of Texas, president of the Texas Farmers Union, and former president of the Texas division of the American Cotton Association; Fred Roberts, Corpus Christi, former president of the United Cotton Growers of America; S. A. Lindsay, Dallas, secretary of the Federal Land Bank of Texas; W. B. Bizzell, president of the Texas A. & M. College;

This Committee met in Dallas the last week in December and continued in session for more than a week. Sapiro and Carl Williams met with them to explain the plan of organization adopted in Oklahoma a few months before. After long and heated discussion the committee finally accepted this plan with a few minor changes. They then formulated tentative specifications for the membership campaign, and prepared their report for the January meeting of the Federation.

The first annual meeting of the Texas Farm Bureau Federation was held in Dallas, January 26-28, 1921. To this convention the Committee made their report. After a turbulent session the convention adopted the proposed plan of organization, and decided to begin the membership drive on March 1, leaving all matters pertaining to the conduct of this drive in the hands of the Committee of 21.

The plan of organization, accepted by the committee and the convention, provided for a state cotton marketing agency to be known as the Texas Farm Bureau Cotton Association.

Four documents form the legal, and actual, basis upon which the Texas Farm Bureau Cotton Association was organized, and has been operated to the present time. An analysis of these documents will give a clear picture of what the proponents of this plan were trying to do, and how they proposed to accomplish their ends. These docu-

Walton Peteet, Dallas, manager of the Agricultural Department of the Texas Chamber of Commerce; Ed. C. Lassater, millionaire Falfurrias farmer and stockman; Henry Coit, Renner, wealthy farmer; L. L. McKonkey, Wichita Falls, farmer; C. A. Dosse, Ballinger, farmer; G. E. T. King, Taylor, farmer; Leslie Elliott, Belton, farmer; D. M. Jones, Paducah, farmer; J. B. Forston, Rice, farmer; Shirley Gregg, Manor, farmer; J. D. Rogers, Navasota, farmer; R. F. Gilley, Cladwell, merchant; H. E. Childa, Itasca, banker; Joseph Hirsch, Corpus Christi, banker; C. O. Moser, secretary of the Texas Farm Bureau Federation; E. F. Shropshire, manager of the cotton division of the Farm Bureau Federation.

ments are (1) the Association Agreement, (2) the By-Laws, (3) the Marketing Agreement, or Contract, and (4) the articles of Incorporation. The Association Agreement was drawn up by the Committee of 21, and, with a tentative marketing contract, formed the report of that Committee to the Federation convention. This Agreement provided for slight changes in the marketing contract at the discretion of the Committee. However, this discretion was not exercised. The By-Laws were formulated by the committee after the membership campaign had begun. The Articles of Incorporation were drafted by the first Board of Directors of the new Association, signed by them, and filed with the proper State official.

The Association Agreement

The Association Agreement begins with the declaration:

> "The undersigned propose to organize a non-profit association, without capital stock, under the laws of the State of Texas for the purpose of promoting, fostering, and encouraging the business of producing and marketing cotton coöperatively; for reducing speculation; for stabilizing the cotton markets; for coöperatively and collectively handling the problems of cotton growers; and for other pertinent purposes."

From this statement of purposes, it may be assumed that the group of men who proposed to carry them through were both ambitious and optimistic.

On the matters of membership and control, the Association Agreement applies the general principles formulated by Sapiro. Only actual cotton growers of Texas are permitted to become members. This is interpreted to include landlords and lessors who receive as rental a part of the cotton produced on rented or leased land. Each member is charged a membership fee of $10.00, except as

UNIVERSITY COLLEGE

noted above. Each member has one and only one vote in the management of the affairs of the Association.[2]

The direction of the Association is placed in the hands of a board of twenty-three directors. Twenty of these directors must be members, and are elected, one from each of the twenty districts into which the State is divided. The other three are known as Public Directors, one appointed by the Governor of the State, one by the president of the Agricultural College, and one by the president of the State Farm Bureau Federation. These three directors are specifically intended to represent the public interest in the conduct of the affairs of the Association.[3]

The Committee proceeded to divide the State into twenty districts having approximately equal cotton productions the previous year. After the first year of operation, the Board of Directors is ordered to redistrict the State annually in such a way as to provide approximately the same number of members in each district. The members of each district are to elect, of their number, one man to serve for one year as their representative on the Board. This election is to take place in July, and each member is to have one vote, which may be cast in person, at an annual district convention called for the purpose of electing the director, or by mail.[4]

Provision is made for informal local branches in every district, and every "central locality." These locals are to have their own officers who shall have the right of attending meetings of the Board of Directors, and of acting in an advisory capacity to them.[5]

The actual work of organization was to be carried out by the Federation acting through the Committee of 21. The Committee was ordered to keep an itemized account of all expenditures, salaries, fees, and costs of every kind,

[2] Appendix A, Sections 2, 9, and 10. [3] Appendix A, Sections 3 and 4.
[4] Appendix A, Sections 4, 5, and 6. [5] Appendix A, Section 8.

which should be presented in writing to the Board of Directors as soon as organization was completed, and the Board elected. The costs of organization should then become a debt of the Cotton Association to the Federation, payable when, and in such manner as, the Association and the Federation should mutually agree. However, this charge should not be greater than one dollar per member secured, plus the costs of obtaining the charter, and other legal expenses of incorporation.[6]

One of the most interesting features of the Association Agreement is that stipulating the conditions under which the Association may secure "warehouses or other plants to handle, treat, process, and warehouse or store any or all of the cotton delivered by members of the Association, or others." The Association reserves the right to create a warehousing corporation in any community, or district, upon the written request of at least one hundred members. This corporation shall have the right to lease, purchase, or construct, and operate a warehouse or other plant for the above named purposes. The members of the Association (it is not specified whether this means the members of that district, or community, or the entire membership of the Association) are to be informed when the Association intends to create such a corporation. If, within two weeks after the notices are mailed, a majority of the members do not signify their dissent or disapproval of the plan, the Association may proceed with the program.

When such a corporation is created, it shall have both common and preferred stock. The authorized common stock shall have all the voting privileges and shall exceed in amount the preferred stock. The total amount of stock to be issued is left to the discretion of the Association, but the preferred stock may not exceed $10 per bale of the 1920 crop produced by the members of that district.

[6] Appendix A, Section 14.

No member shall be allowed to "purchase originally" more than $100 of common stock, and no such stock can be sold to non-members.

The preferred stock is to be divided into five equal classes, subject to retirement at face value plus 2%, at the rate of one class annually. This stock is to bear 8% cumulative dividends, and may be sold to anyone. The Association agrees to retire one class of the preferred stock each year, and to pay the required 8% interest. The funds for these purposes are to be procured by deducting a sufficient amount from the resale price of the cotton of members within the warehouse district. As the preferred stock shall be retired, the Association pledges the corporation to issue common stock to the members in proportion to the amount each has contributed to the retirement of the preferred stock. Under this plan complete ownership will pass to the members of the district at the end of the five-year period.

The control of any such warehousing corporation created under the above agreement is to be subject to a cross contract between it and the Association. Under this contract the corporation is to perform certain functions, such as handling, storing, shipping, and delivering member cotton, under specifications stipulated by the Association. These services are to be performed on a strictly non-profit basis. The corporation is to be paid by the Association "only the actual costs of such operations and amounts, apportioned over the operation of any one season, sufficient to pay a dividend of 8% on the outstanding common stock and the dividends on the outstanding preferred stock and to retire in each of the five calendar years, beginning with 1922, one fifth of the preferred stock, or one class thereof; and sufficient amounts for taxes, insurance, depreciation, betterments and commercial and secondary charges, all as the Direc-

tors of the Association may instruct and limit the corporation, and not otherwise."

In handling non-member cotton the corporation is to be conducted as a public warehouse with such charges as may be set by legal order or such as are customary in the district. All earnings from such business shall be utilized in meeting the overhead expenses of operating the corporation.[7]

These provisions of the Association Agreement relating to subsidiary corporations have never been applied. But the leaders of the movement are now (1927) discussing the feasibility of buying, building, or leasing, and operating Association gins; and in case this is done the interpretation of these sections may become a most important matter. This subject will receive further consideration later.

Section thirteen of the Association Agreement gives the interpretation, by the Committee, of the Fundamental Principle that such an association must have enough of the product under contract to make possible an economical administration, and enough to be an influence in the market. This question had been considered carefully by the Committee, and also by the Farm Bureau Federation Convention. Their conclusion had been that the Association must be able to handle a million bales of cotton if it was to be able to perform adequately the functions prescribed. Consequently, that was set as the goal of the first membership campaign. The Committee also set July 1, 1921, as the date upon which this goal should be reached. The Marketing Agreements signed by prospective members were made contingent contracts. If by July 1, enough marketing agreements had been signed to cover a million bales on the basis of 1920 production, they were to become legally binding contracts. On the other hand, if less than the million bales had been

[7] Appendix A, Section 16.

signed up, the signers were to be given an opportunity to cancel their agreements. This option would have to be exercised between July 15 and August 1, the signers having been notified by the Committee prior to July 15. In case the million bales were not secured by July 1, and cancellations did not reduce the sign-up below 500,000 bales, the Committee, at its option, might proceed with the organization. As events transpired, the actual organization was consummated under the latter provision.[8]

Apparently the Committee intended to present this Association Agreement to the cotton growers of the State for their signatures. The last section provides that a signature to this Agreement shall be deemed equivalent to a signature to the marketing contract. This contract was to be drafted later by the Committee in strict conformity to the provisions of the Agreement. However, before the actual membership drive began on March 1, the Committee had concluded its work on the marketing contract and the by-laws, and was prepared to present them to the farmer for signature.

The Marketing Agreement, or Contract

The Marketing Agreement, or the Contract, as it has always been called, begins with a statement of purposes identical with that in the Association Agreement.[9] The other eighteen sections of the Contract may be logically organized under the following six heads:

1. Sale of Cotton to the Association by the Members

The heart of the contract is contained in the simple statement of section 2.

"The Association agrees to buy and the grower agrees to sell and deliver to the Association all of the cotton produced

[8] Appendix A, Section 13.

[9] Appendix B, Section 1.

or acquired by or for him in Texas during the years 1921, 1922, 1923, 1924, and 1925."

The purport of this statement is obvious: the signer pledges himself to deliver to the Association his entire output of cotton for a period of five years. The method of statement is significant. The member not only contracts to *deliver* his cotton to the Association, he also contracts to *sell* it to that organization. This is one of the essential features of the document. Many farmers' coöperatives in this country had found it impossible to operate because the legal title to their commodities remained with the individual member. This made pooling difficult. It made hypothecation of the commodity as collateral for loans impossible.

It was foreseen by the Committee that one of the formidable problems in the operation of the Association was that of securing credit. If a million bales of cotton were to be taken from members in the fall, to be marketed through a period of one year, the Association would certainly need many millions of dollars to make the necessary initial and advance payments to the members and to transport, insure, warehouse, grade, and sell this cotton. The only means of procuring this money was by selling part of the cotton as it was delivered, and by borrowing. The only collateral the Association had, to secure these loans, was the cotton as it was delivered. The problem was apparently satisfactorily solved by having the member actually sell his cotton to the Association. Unqualified legal title vests in the Association from the moment the cotton is delivered. This the courts have always sustained. Hundreds of millions of dollars advanced the coöperatives during the past five years attest bankers approval of the device.

2. Grading, Pooling, and Reselling by the Association

The Association in turn agrees to buy this cotton of its members, to handle, grade, pool, and resell it, and to return to the member his proper proportion of the resale price minus certain specified deductions. The Contract stipulates that the grading and classing shall be done by the Association in accordance with the Official Cotton Standards Act of the United States, and such grading and classing shall be conclusive.

The pooling system approved by the Committee, and explained in the Contract, was considered one of the Fundamental Principles of the Sapiro scheme of organization. It was based on the idea that each member should receive the average seasonal price for the grade and quality of cotton he produced. The device for carrying out this idea was very simple. Every bale of cotton was to be graded, stapled, and classed by competent classers. These classers would have no way of knowing whose cotton they were classing; consequently, there would be no possibility of fraud. All cotton of the same class was to be mingled in a pool. These pools were to be for one season only. At the end of the season, or when the entire crop had been sold, the money received for the cotton of each pool was to be prorated to the growers on the basis of the proportionate amount each had contributed to that pool. For instance, if a certain member delivered 1,000 pounds (2 bales) of Low Middling, 1″ staple, hard, white cotton, it would be pooled with all other identical cotton received by the Association. Suppose the Association received 1,000,000 pounds (2,000 bales) of that grade and staple. This would be sold from time to time at such prices as the Association considered advantageous. If at the end of the season the average price received for all Low Middling, 1″ staple, hard, white cotton was 20¢ per pound, this grower would get

exactly $200, less the proper deductions provided in the Contract.[10]

The Association, in other words the Board of Directors, retains complete and conclusive jurisdiction over all matters relating to the sale, or resale, of member cotton. Certain general statements of policy are enumerated in the Contract, but, in the last analysis, the interpretation of these rests conclusively with the Board. In the first place, the Association pledges itself to "endeavor to sell the cotton gradually, as the spinning industry requires it, or at the best possible price before another crop is produced." However, the statement proceeds, "In case prices are not satisfactory or production is greater than consumption, or there are abnormal trade or financial conditions, the Association will, in its discretion, hold such part of the cotton as may not be sold at a satisfactory price, until there is a fair demand for it." Since it is for the Board to determine what are "satisfactory prices," "abnormal trade or financial conditions," and a "fair demand," its amount of discretion appears to be practically unlimited.[11]

The Association also retains the right to sell "directly to spinners or exporters or otherwise, at such times and upon such conditions and terms as it may deem profitable, fair, and advantageous," either within or without the State. In performing this function the Association reserves the right to associate with other similar cotton coöperatives in creating an agency for handling cotton on an interstate scope.[12]

3. Payments and Deductions

When the Association resells the cotton delivered by the members, the Contract states that all money received shall be prorated to the members as noted above, except

[10] Appendix B, Sections 5a and 6.
[11] Appendix B, Section 5b.
[12] Appendix B, Section 8.

for certain stipulated deductions. These deductions may be divided into two categories. First, there are those deductions which are prorated among the members according to the number of, or the value of, bales of cotton handled for each. These may be called the discretionary deductions, since their amount is left to the discretion of the Board. These fall into three classes:

(1) Costs of maintaining the overhead organization, including all costs of handling, grading, and marketing member cotton, except such costs as are otherwise provided for. (See p. 89 below.) [13]

(2) "Reserves for credits and other general purposes." These reserves are not to exceed 1% of the gross resale price of Association cotton.[14]

(3) A reserve for the purpose of buying, building, or leasing a warehouse or other plant. Only those members who are in the immediate district (to be defined by the Association) which is to be served by the plant will contribute to this reserve. These deductions shall be sufficient to retire one fifth of the preferred stock, of the subsidiary corporation, each year, plus an amount equal to the retirement bonus on this stock, the dividends on all outstanding preferred stock, and interest on the advances made to the corporation by the Association. Each member shall receive an interest in the corporation proportionate to his contribution to this fund.[15]

The provisions of the Association Agreement and of the Contract on this point are different in two essentials: First, the former document provides a limit of $10 per bale based on the 1920 production; the Contract sets no limit whatever. Second, the Association Agreement provides that a deduction may be made sufficient to pay an 8% dividend on common stock of the corporation; the Contract omits this provision.

[13] Appendix B, Section 6.
[14] Appendix B, Section 6.
[15] Appendix B, Section 16.

Again it may be remarked that these somewhat hazy provisions of the Contract relating to the subsidiary corporations have not come up for judicial interpretation because the Association has not yet attempted to provide its own plants. When it does, and it undoubtedly will if it continues the rapid progress of the past five years, these hazy provisions may become potent trouble makers.

The second general class of deductions are those which are not prorated according to the amount or value of cotton delivered, but are charged specifically against each member, or bale of cotton. Of the former are the organization fee, and the annual dues of the Farm Bureau Federation. Of the latter type are freight, insurance, and interest.

The membership fee of $10 is sometimes paid in cash when the member signs the Contract, but usually the Association is authorized to deduct it from the first payment due him. The same provision is made for the payment of the member's annual dues to the Federation in case he is also a member of that organization.

Alone, of the thirteen cotton coöperatives of this type, the Texas Association allocates to each bale of cotton the exact freight into the concentration point. This is practicable because all Association cotton is concentrated at one point, Houston; and because the zoning, and Common Point Territory freight rate system of Texas make the calculations simple.

Since insurance on cotton, and interest on funds borrowed (and advanced to the member) are more closely related to value of cotton than to number of bales they are allocated on a basis of total resale value of cotton handled for each member.[16]

This whole question of the basis for allocating the various costs of operation is a puzzling one. Probably no

[16] Appendix B, Section 6.

two of the associations handle it in exactly the same way. The excellent statement of the case by D. G. Hill, Director of Systems, of the American Cotton Growers' Exchange, indicates the complexity of the problem, and the difficulties in finding an intrinsically just solution.[17]

4. Handling Mortgaged Cotton

Another difficulty foreseen by the Committee was that of handling mortgaged cotton, though in 1920 none of the coöperators even remotely anticipated its ramifications. It is impossible to state exactly the percentage of the cotton crop of Texas which is mortgaged, or otherwise pledged, before it is harvested. Undoubtedly it is very large. Mr. Colbert, of Oklahoma, stated before the National Council of Farmers' Coöperative Marketing Associations in their annual conference in Washington, January 12, 1926, that 99% of the cotton handled by his association was so pledged. Mr. John E. Owens, banker of Wills Point, Texas, and at one time financial adviser of the Texas Association, assured the writer that at least 85% of all the cotton of Texas was produced under some form of crop lien.

The Committee attempted to provide for this situation by formulating simple rules under which the Association could handle mortgaged cotton for its members. The member is required upon signing the Contract to give all data concerning any lien outstanding against all, or any, of his cotton. Any cotton so pledged is declared to be excluded from the terms of the Contract. If, after signing the Contract, he desires to mortgage or otherwise pledge any of his cotton, he is required to so inform the Association, and it agrees to "advise the grower in any such transactions." However, regardless of what it advises the grower to do in the matter, the Association still retains the right to take delivery of such cotton. To

[17] Statement in full in Chapter VIII.

make this possible the grower agrees that he will execute an assignment to the creditor of his equity in the cotton, to the extent of the creditor's just claims. The Association in turn agrees to pay this amount directly to the creditor out of the proceeds of the resale of the cotton if these funds are sufficient for that purpose. Any proceeds of resale due the grower, and not required to satisfy the stipulated claims of the creditor, will go directly to the grower.[18]

5. Miscellaneous Provisions

The miscellaneous provisions of the Contract may be divided roughly into two categories: (1) Rights specifically reserved to the Association; (2) Rights specifically reserved to the individual member. Of the former there are five, as follows:

(a) The Association may direct the member to deliver his cotton, immediately after ginning, to the Association warehouse in the district, or to a public warehouse, or by shipment as directed by the Association. In either case the member agrees to surrender to the Association the warehouse receipts or bills of lading properly endorsed.[19]

(b) The Association specifically reserves the right to borrow money in its own name on cotton delivered, in any of the usual commercial methods employed by the cotton trade.[20]

(c) "The Association may establish its own selling offices, warehouses, plants, marketing, statistical or other agencies in any place." [21]

(d) The Association may, from time to time, require the member to furnish statistical or other data, on forms to be provided him.[22]

(e) The Association may require delivery of any cot-

[18] Appendix B, Sections 3 and 13c.
[19] Appendix B, Section 4a.
[20] Appendix B, Section 9.
[21] Appendix B, Section 10.
[22] Appendix B, Section 14.

ton which the member has on hand when he signs the Contract. This cotton will, however, be handled in pools entirely separate from cotton of the new crop.[23]

Of the rights and privileges reserved by the member there are three, as follows:

(a) The member may stop growing cotton at any time. He is not pledged to deliver any certain amount of cotton, but he is required to deliver so long as "he produces directly or indirectly, or has the legal right to exercise control of any commercial cotton, or any interest therein during the term of this Contract." [24]

(b) The member may grow anything else he pleases, and market it any way he desires. The Association is interested only in his cotton.[25]

(c) A co-partnership may become a member of the Association upon each member signing the Contract. If the partnership is subsequently dissolved, each of its former members individually is a member of the Association.[26]

6. Provision for Contract Enforcement

One of the most significant features is the legal remedies provided for violation or threated violation of the Contract. One of Sapiro's Fundamental Principles was that the contract should be legally binding; in other words, that it should provide for adequate remedies at law for its complete enforcement. There is no doubt whatever today that the Contract under discussion is successful when considered from this standpoint. It, with others like it, has been tested in thousands of court actions in the cotton states during the past five years. So far as records show it has been upheld in every case.[27]

[23] Appendix B, Section 17.

[24] Appendix B, Sections 11, 12, and 13a.

[25] Appendix B, Section 11.

[26] Appendix B, Section 13b.

[27] One coöperative in the South, having the Sapiro Contract, has brought over a thousand court actions for enforcement under these provisions, and has never lost a case on grounds of legality. The Texas

This section of the Contract is of sufficient importance to be quoted in full.

18. (a) "Inasmuch as the remedy at law would be inadequate and inasmuch as it is now and ever will be impracticable and extremely difficult to determine the actual damage resulting to the Association, should the grower fail to sell and deliver all his cotton, the grower hereby agrees to pay to the Association for all cotton delivered, sold, consigned, withheld or marketed by or for him, other than in accordance with the terms hereof, the sum of five cents per pound as liquidated damages for the breach of this contract; all parties agreeing that this contract is one of a series dependent for its true value upon the adherence of each and all the growers to each and all the said contracts.

(b) "The Grower agrees that in event of breach or threatened breach by him of any provision regarding delivery of cotton, the Association shall be entitled to an injunction to prevent breach or further breach hereof and to a decree for specific performance hereof; and the parties agree that this is a contract for the purchase and sale of personal property under special circumstances and conditions and that the buyer cannot go to the open markets and buy cotton to replace any which the Grower may fail to deliver.

(c) "If the Association brings any action whatsoever, by reason of a breach or threatened breach hereof, the Grower agrees to pay to the Association all costs of court, costs for bonds and otherwise, expenses of travel and all expenses arising out of or caused by the litigation and any reasonable attorney's fees expended or incurred by it in such proceedings; and all such costs and expenses shall be included in the judgment and shall be entitled to the benefits of any lien securing any payment thereunder.

(d) "If for any reason the Grower member hereof fails or refuses to sell and deliver any or all of the cotton covered by this Marketing Agreement as above directed, then such cotton shall be delivered to the Association, F.O.B. Dallas,

Association has fought approximately two hundred cases with the same results.

Texas, and in any event all payments and obligations, arising out of this Marketing Agreement, shall be due and payable at Dallas, Texas; and any Liquidated damages, attorney's fees, expenses and costs, in the event of a suit, shall be due and payable at Dallas, Texas."

By-Laws of the Association

When the Contract was presented to the cotton growers, there was attached to it a copy of the By-Laws of the Association. The signer was required to state that he had read both documents and would be bound by the provisions of both. These By-Laws specify in detail the rules and regulations for the control and operation of the Association. They can best be discussed under the three agencies for control, namely: (1) the Board of Directors; (2) the officers, and (3) the members.

1. The Board of Directors

The provisions of the Association Agreement concerning the number, qualifications, and method of election of the Board are repeated verbatim in the By-Laws. In case a vacancy occurs it shall be filled by the Board until the next regular election. In filling such a vacancy the Board must select a properly qualified member from the district that has lost its representation. Any Director who has ceased to be a member of the Association, or who has violated any contract with the Association, shall cease to be a member of the Board when it so requests by a majority vote. This evidently means that such a director may continue to serve until the next regular election unless ejected by the other members.[28]

The Board is required to hold one regular meeting each month, at such time and place as it shall determine. It may, at any time, be called into special session by the

[28] Appendix C, Section 3, Article II.

President, or by a majority of the Directors. Special sessions may transact all business within the jurisdiction of the Board. At any meeting twelve directors constitute a quorum.[29]

The directors are not allowed compensation for their services except actual traveling expenses, and $10.00 per day to defray expenses while in attendance.[30]

The Board is given very broad powers in performing its functions as the agency of immediate, and almost complete, control of the actual operations of the Association. The most important of these powers are (1) To appoint, and remove at pleasure, to determine the qualifications of, to fix the compensation of, and to make rules and regulations concerning the conduct of all employees of the Association; (2) To determine all matters relating to the finances of the Association; (3) To determine all sales policies, and to make the actual sales, at their discretion, for the Association; (4) To call special meetings of the members when they deem necessary, and at any time upon written request of one third of the members; (5) To appoint an executive committee of five of its own members, to determine its tenure of office, its powers and duties, and its compensation; (6) To appoint an auditing committee of its own members, to determine its tenure of office, its powers and duties, and to require a semi-annual audit by a certified public accountant; (7) To create advisory committees from among the general membership, and to determine their powers, functions, duties, and privileges; (8) To create and maintain local branches in each district and central locality; (9) To determine the time, amounts, and conditions for distributions to be made to the members; (10) To prescribe all rules and regulations for delivering, shipping, warehousing, insuring, grading, pooling, financ-

[29] Appendix C, Article II, Sections 5, 7, and 9.
[30] Appendix C, Article II, Section 10.

ing, and selling cotton of the members; (11) To assess a penalty of $50.00, by an affirmative vote of seven directors, against any member for violation of any of the By-Laws; (12) To appoint, and remove, a general manager, and to determine his term of office, his duties and powers, and his compensation; (13) To purchase the property, or other rights of any member in the Association, at the book value thereof, and in this way expel the member from the Association; (14) To prescribe forms for drafts, checks, notes, contracts, membership certificates, assessments, assignments, advances, ledgers, and all other documents necessary to the conduct of the paper work of the Association; and (15) In general, to do all things necessary and legitimate in the conduct of the affairs of the Association.

2. The Officers

The officers provided for in the By-Laws are a president, vice-president, secretary, treasurer, and any others that the Board may see fit to employ. The secretary and the treasurer need not be members of the Association. Though not specifically so stated in the By-Laws, the others apparently must be. As the business of the Association has expanded, this list of officers has been greatly enlarged.

The functions of the president are (1) To preside over all meetings of members, and of the Board; (2) To direct the affairs of the Association under the supervision of the Board; (3) To call the Board together whenever necessary; (4) To sign all membership certificates, contracts, notes, and other instruments when so directed by the Board; and (5) In general to perform all the functions delegated to him by the Board.

If the president is at any time unable to perform his duties, the vice-president shall take his place.

The treasurer is ordered to "take general charge of

the funds of the Association." Otherwise his duties are left to the discretion of the Board.

The duties of the secretary are specified in much greater detail. The most important of these are (1) To keep a record of all meetings of the Board, of the executive committee, and of the general membership; (2) To keep, and properly use, the corporate seal; (3) To keep the membership book, which shall contain a complete record of each member; (4) To receive and deposit all funds of the Association, and to account to the Board for all receipts, disbursements, and balances on hand; and, (5) To discharge all the duties pertaining to his office, under the direction of the Board.

3. The Members

The provisions in the By-Laws relating to the general membership may be organized under the following eight heads:

(1) *Eligibility.* Following the second Fundamental Principle of the Sapiro Plan, the By-Laws provide that only cotton growers may become members. However, the classification is expanded to include not only individual growers but also firms, corporations, partnerships, and their managers, officers, or members, provided they are actually engaged in the production of cotton and collectively and individually sign the Marketing Contract.[31] In case a firm, corporation, or partnership becomes a member, its membership certificate may be assigned to one of its officers, members, or stockholders in order to make him eligible for membership in the Board of Directors of the Association.[32]

(2) *Membership fee.* The By-Laws provide for a membership fee of $10.00 for every member, payable upon entrance. However, this fee is waived, prior to

[31] Appendix C, Article XIII, Section b.
[32] Appendix C, Article XVII.

1926, for all members of the Farm Bureau Federation. Also in case it is not paid by the member when he signs the contract, it is to be deducted from the proceeds of the resale of his cotton. In case the member is already a member of the Federation he shall instruct the Association to pay his annual dues of $10.00 to the Federation. There are no annual dues for membership in the Association.

(3) *Membership certificates.* The Association agrees to issue a membership certificate to every signer of the contract. This instrument states that the holder is a member of the Association, has an equal right with all other members in the property of the Association, and has one vote in all matters left to the control of the general membership. This certificate, and the rights it carries, are not negotiable, or transferable in any way, except upon the consent of the Board. The Board may, in its discretion, formulate rules governing the conditions under which the membership certificates may be transferred. In general it is intended that an individual who leases or purchases the land of a member, and thereby supersedes him as a cotton producer, shall acquire the membership certificate. However, to do this he must sign the contract, and also secure the consent of the former member to such transfer.[33] This expedient is taken over bodily from some of the California Coöperatives. It may have been very important where the property rights of the member were valuable, and the basis of membership was an orange orchard which had required twenty years to be brought into production, but it has been of slight value to the cotton coöperatives.

(4) *Voting power.* Applying literally the Fundamental Principle of democratic control, the By-Laws provide that each member shall have one and only one vote. On all matters left to the control of the general member-

[33] Appendix C, Article XIII, Section c.

ship, the member may vote in person, by proxy, or by ballot through the mails. In practice, the last method has been used exclusively.[34]

(5) *Property rights.* The By-Laws state that the property rights of all members shall be equal, that each member shall have one unit of property rights in all property owned by the Association. This, however, does not apply to the 1% reserve fund, nor to the warehouses and other plants which are owned by the members of the immediate district.[35]

(6) *Liability of members.* No member may be held liable for the debts of the Association beyond the extent of any unpaid portion of his membership fee.[36]

(7) *Expulsion of members.* The sole power to expel members from the Association rests with the Board of Directors. Any member may be expelled for failure to carry out the provisions of the Contract. In case of expulsion the member expelled shall be entitled to payment for his rights and interests in the property of the Association at their "equitably appraised cash value."[37]

(8) *Meetings of members.* One of the strangest attempts to carry over from the California Coöperatives a form of action wholly unsuited to the cotton coöperatives appears in the provisions made for general membership meetings. The By-Laws provide for one annual meeting of all members. This meeting is to be held at the offices of the Association on the fourth Monday of June each year. The principal business to be transacted is the election of the new Board of Directors. However, the actual election occurs before this meeting. Each directoral district is required to hold a primary election for the selec-

[34] Appendix C, Article III, Section c; Article XIV; Article XII, Section 6.

[35] Appendix C, Article XIII, Section f.

[36] Appendix C, Article XIII, Section l.

[37] Appendix C, Article XIII, Section d.

tion of two candidates whose names shall be then submitted to the membership of the district for final action. This final vote to name the director for the district must be received at Association headquarters some time before the date for the annual membership meeting; or a member may appear in person, or by written proxy and cast his vote. The technical election takes place at eleven A.M. on the fourth Monday in June. This merely means that the votes are counted and the successful candidate declared a member of the Board. There has never been as many as one per cent of the members present at an annual meeting.[38]

This meeting may transact any business which may properly come before it. One half the total membership either in person, or represented by proxy is necessary to constitute a quorum.[39]

A special meeting of the members may be called by the president, by a majority of the Board, or upon a written demand of one third of the membership. These called meetings may transact only such business as is stated in the purposes for the call. The called meetings require the same quorum for any action as the annual meetings.[40]

Notice must be mailed to every member at least ten days before the date for any membership meeting.[41]

Two methods are provided by which the By-Laws may be amended: (1) They may be amended at any annual meeting, or other meeting called for that specific purpose, by a majority vote of all members of the Association; or (2) They may be amended by the written assent of one half of the members, without any meeting.[42]

[38] Appendix C, Article XII, Sections 1, 2 and 6.
[39] Appendix C, Article XII, Section 5.
[40] Appendix C, Article XII, Section 2.
[41] Appendix C, Article XII, Sections 3 and 4.
[42] Appendix C, Article XIX.

Articles of Incorporation

The Articles of Incorporation were signed by the Board of Directors and filed with the Secretary of State on July 27, 1921. They include (1) the name of the Corporation, (2) its purposes, (3) place of business, (4) term for which it is to be incorporated (i.e., fifty years), (5) form of control, and, (6) type of organization. With two significant exceptions all the provisions are mere restatements of the provisions of the Association Agreement, By-Laws, and Contract.

In stating the purposes for which the new corporation is being organized the Articles of Incorporation add two features not found in any of the other Association documents. The first of these is the provision stating that the Association may "purchase and sell to its members machinery, equipment or supplies" used in any of their activities relating to cotton.[43]

The second states that the Association may "lend money to the members of the Association in connection with any of the said activities, upon any adequate security; and to accept as collateral for such loans, warehouse receipts, crop mortgages, chattel mortgages, mortgages, deeds of trust, or any other kind of property or security permitted by law."[44] These two additions to the functions that may be performed by the Association have become tremendously important since the year 1925-26.

[43] Appendix D, Article II, Section c.
[44] Appendix D, Article II, Section e.

CHAPTER IV

ORGANIZATION CAMPAIGN

THE story of the first membership campaign of the Texas Farm Bureau Cotton Association is one of the epics of the Southwest. The new program, in both scope and purpose, was the most ambitious ever seriously attempted in that section, if not indeed in the whole field of American Agriculture. None of the formulators of that program realized how far it would carry them. None of them appreciated the revolution which its success would have caused in the whole business structure of the Cotton Kingdom.

No proposal to reorganize an agricultural industry of Texas has ever received such vigorous and general approval. Almost all the significant farm leaders actively assisted in the campaign. The Committee of 21 was probably the strongest group of such leaders ever marshalled to the support of an agricultural program in Texas. There were three important agencies for molding the farm opinion of the State: (1) The Agricultural and Mechanical College, through its Extension Service; (2) The State Farm Bureau Federation; and (3) The Farmers Union. All three unreservedly supported the new program.

The State Legislature gave its assistance in the form of the now famous Texas Coöperative Marketing Law. This Act was passed while the membership campaign was in full swing. It was significant in determining the form of business set-up, the scope of activities, and the methods of control for the new Association. With only minor

modifications this law has been adopted by thirty-five states during the past five years. No other statute in the history of state legislation in this country has ever received such immediate and such general acceptance.

The Federal Government through various agencies went even further than did Texas, or any of the other states, in giving aid and support to the new program. The Federal Reserve Banks and the Federal Land Banks assisted to the limit of their legal powers. Judge Gossett, President of the Federal Land Bank of Houston, Texas, openly and actively advocated the new project. Mr. Talley, of the Federal Reserve Bank, of Dallas, was one of the committee of three appointed by the State Bankers Association to assist the campaign committee.

The United States Department of Agriculture gave invaluable assistance. Bulletins were issued for the purpose of guiding the coöperators in every phase of their work, from the statement of fundamental principles to models of by-laws, contracts, association agreements, and legal and business forms. Experts of the Department were at numerous times assigned to work in active furtherance of the campaigns. Every Secretary of Agriculture from 1920 to the present time has pledged, and given unstinted support to the movement.

The National Congress passed three Acts of incalculable value to the new program. The first of these was the amendment to the Anti-Trust Acts known as the Capper-Volstead Act of February 18, 1922. The Clayton Act of 1914 had apparently attempted to except farmers marketing coöperatives from the restrictions imposed by the Anti-Trust Acts. But the ambiguity of the language used left a doubt as to whether the exception was of value to such organizations. The Act states that "Nothing contained in the Anti-Trust Laws shall be construed to forbid the existence and operation of labor, agricultural or horticultural organizations, instituted for the purpose of

mutual help, and not having capital stock or conducted for profit, or to forbid or restrain individual members of such organizations from lawfully carrying out the legitimate objects thereof. . . ."[1] If the field of legitimate action for such organizations was not enlarged, and apparently it was not, the value of the exception is dubious. At any rate the tremendous growth of farmers' coöperatives immediately after the War brought an ever increasing pressure to bear upon Congress to give them definite and understandable legal status. The answer to this insistent demand is expressed in the Capper-Volstead Act. Section 1 contains the following provisions:

"That persons engaged in the production of agricultural products as farmers, planters, ranchmen, dairymen, nut or fruit growers may act together in associations, corporate or otherwise, processing, preparing for market, handling or marketing in interstate and foreign commerce, such products of persons so engaged. Such associations may have marketing agencies in common; and such associations and their members may make the necessary contracts and agreements to effect such purposes. Provided, however, that such associations are operated for mutual benefit of the members thereof, as such producers, and conform to one or both of the following requirements:

"First that no member of the association is allowed more than one vote because of the amount of stock or membership capital he may own therein, or,

"Second that the association does not pay dividends on stock or membership capital in excess of eight per centum per annum; and in any case to the following:

"Third that the association shall not deal in the products of non-members to an amount greater in value than such as are handled by it for members."[2]

This act regulating the interstate and international phases of the new associations, together with the coöpera-

[1] Section 6 of the Clayton Act, of October 15, 1914.
[2] 42 Stat. L. 388.

tive marketing acts passed by most of the states, has provided a solid legal status upon which to build.

The second was the Act of January, 1921, re-creating the War Finance Corporation with a capital of $500,000,000 for the expressed purpose of promoting the orderly marketing of agricultural products. This put almost unlimited credit facilities at the call of the coöperatives.

The third was the creation of the Intermediate Credits Banks for supplying cheaper production credit to the farmers. These banks were to be organized and operated in conjunction with the Federal Land Banks, and were designed to provide a line of credit not furnished by the Federal Reserve Banks nor the Federal Land Banks. In other words, they were to supply credit running from six months to five years for the purpose of carrying the production and marketing of agricultural products, and live stock. This credit was to be made available through existing banking channels, and also through coöperative associations, finance corporations, and other farmers business organizations operating as directed by the Law.

As important to the coöperatives as the State and National legislation was the assistance of certain powerful financial and business groups. One of the first of these whose support was solicited by the Committee of 21 was the bankers of the State. Members of the Committee attended each of the seven district Bankers' Association meetings held during 1921. Six of the seven were induced to promise support to the new program. In May the Annual Convention of the State Bankers' Association met in San Antonio. All the more important of the coöperative leaders attended this meeting. Individually, to small groups, and before the whole convention the case of the new program was ably presented. Sapiro's speech before the convention was one of the most effective he ever made. After hearing him for two hours the thousand-odd

delegates voted unanimously to throw the weight of that powerful organization into the fight for the new order. A committee was appointed, composed of three of the most influential bankers of the State, to assist in the membership campaign.[3]

The support of local Chambers of Commerce, retailers' associations, Rotary, Kiwanis, and Lions Clubs and other similar organizations was secured. In general the press of the State supported the movement.

In short, practically every organized force which could be counted upon to influence the opinions and actions of the farmer was lined up solidly behind the new program. This condition is sharply contrasted with that attending the birth of most of the agricultural reforms of the South during the past half century.

In another phase the new program had a tremendous initial advantage over any similar attempt to organize the Southern cotton grower. Most of these former attempts had lacked a concise, definite statement of exactly what the organization was going to do, and how it was going to do it. The ideas of the leaders of the Grange, the Farmers Union, etc., were usually very vague and often conflicting as to purposes and policies, as well as to the methods and devices of operation. On the other hand, the new program was comparatively simple and clear-cut. The form of organization was easy to understand. Scores of such organizations were in successful operation. Also the purposes, at least the immediate aims, were admirably and adequately stated in language that the more intelligent of the farmers would have no difficulty in understanding.

To these numerous auguries of success must be added one more significant item. The experiences of the recent war had taught a new technique of propaganda. The Liberty Loan drives, the Red Cross drives, the Y.M.C.A.,

[3] Oxsheer Smith, Joseph Hirsh, and L. Talley.

the Jewish Welfare, the Salvation Army, the buy-a-bale-of-cotton, and the thousand and one other drives had developed methods for "putting an idea across" that was undreamed of ten years before. This high-powered machine stood ready to the hand of the new leaders. Its components are gate signs, lapel buttons, auto stickers, feature stories, cartoons, magazine articles, house organs, broadsides, page ads, graphics, conferences, campaigns, committees, captains, teams, teas, suppers, breakfasts and dinners, barbecues, picnics, country debates, county fairs, victory week, and everybody-shout!

So the first membership campaign began March 1, 1921, with apparently all the stars propitious for complete success. Probably the best statement of how that campaign was conducted is contained in the following report, made by the campaign publicity manager four months after the completion of organization.

" . . . What you want to know is how we put it over, how we induced farmers in 142 Texas Counties to sign a contract agreeing to deliver every bale of cotton raised on their farms for the next five years. You want to know how we used our news service and our Farm Bureau News, our cartoon service and our house organ and our broadsides and our page advertisements and our auto stickers and our gate signs and our buttons and our special stories in the Farm Papers and our Sunday feature stories and our speaking campaigns and our banker conferences and all the other things which entered into the creation of a great thought wave in the State of Texas, and which resulted in the signing up of more than half a million bales in the Texas Farm Bureau Cotton Association.

"The first thing we did was to analyze our problem. We took the map of Texas and we graphically portrayed thereon, the cotton production of the State. By this means we dismissed nearly half of the area of the State from our calculations. We still had a big job. It was somewhat like a boy with a great big piece of pie and we attacked our problem in just the same way as an intelligent boy should eat his pie. We cut the State

up into seven districts, each district producing a half million bales of cotton in an ordinary year. Then we took one of these districts and made a study of how the thing should be put over in that district, and after we had completed this study we found that we had a plan which, with slight variations, would fit each of the other six districts of the State, and so we had a plan for the entire State.

"We placed supervisors in charge of each of the seven districts to carry out the detail of the plan which we had worked out. In order to save ourselves from big mistakes we started one of our districts two weeks before any of the rest of the State opened up, and those parts of the plan which were not favorable were recognized and the good in the plan was retained and applied to the entire State.

"The thing that came next was to analyze our product. We picked out the big general features and the appealing ideas of the marketing plan, reduced them to simple language, prepared news stories, feature stories, cartoons and broadsides, and copy for house organs and trade journals for use during the campaign.

"Our system is planned on the so called California marketing plan; therefore we wrote to every commodity marketing association in California and got all the figures we could dealing with coöperative marketing. We picked out all the newspaper and magazine articles dealing on this matter and obtained stenographic reports of addresses delivered on coöperative marketing. We thoroughly digested all this material. We took striking extracts and incorporated them in news items and feature stories and in summaries for the use of speakers and workers in the campaign. We were particular to get as many concrete facts with reference to benefits obtained from coöperative marketing as possible and we tried to get our material in such shape that the Texas farmer would believe implicitly that it would pay him to sign the contract. We believed that we had a good thing. To-day we know that it is a good thing. There is no come back as there would have been had we attempted to sell something which did not live up to the claims set forth in our advertising.

"After we had analyzed our product we had to sell, we took

up the study of the people to whom we had to sell it. Of course, it was our main purpose to sell the farmer the idea, but an analysis of the conditions led us to believe that if we sold the farmer we would have to sell bankers and leading business men first; so an analysis of our problem led us to believe that there were two factors to be considered, first the farmer himself, and second the banker or leading business men. We took up the banker and business men first.

"Our main emphasis was on the banker. We wanted every banker in Texas to advise his farmer customers that the Texas Farm Bureau Cotton Association plan was financially sound and safe and profitable. Every year bankers in Texas hold seven district conferences, and after that a big State convention. Through the courtesy of A. & M. College we obtained the services of Mr. Clarence Ousley, formerly assistant secretary of agriculture of the United States. With Mr. Ousley we sent officials of the Farm Bureau and representative farmers to each of the seven district conferences and we obtained from all but one of these seven conferences an endorsement of the plan. We submitted our plan to the agricultural committee of the Texas Bankers Association and succeeded in obtaining from them a promise to report favorably on our plan when a State Convention met in San Antonio. Preceding all these conferences, however, we were very busy in selling the banker at home and by mail. We set up a house organ known as "Farm Business" which we sent to every banker in the State once a month for the three months preceding the San Antonio convention. In this house organ we printed letters of endorsement from California bankers, from such Texas bankers as had already given the matter thought, and who possessed general information regarding the nature of the plan. One issue of "Farm Business" was devoted entirely to explaining the Farm Bureau. We sent out letters to leading bankers. We arranged special meetings of bankers and had key men to sell the idea at these meetings. We held personal conferences with the leading bankers of the State. We had an article printed in the banker's magazines of the State. We had our Farm Bureau President and officers to confer with local bankers. We sent every banker in the State a copy of the

special Farm Bureau edition of the Progressive Farmer. We sent copies of our State paper, the Farm Bureau News to every banker in the State. We obtained leading bankers to act on our organization committee. We obtained a copy of the endorsement of the Oklahoma Bankers Association and sent this to every banker in the State. Leading bankers contributed articles to newspapers and endorsed the plan. We got bankers busy selling bankers and by the time the State Convention came, everything was cocked and primed.

"Aaron Sapiro, counsel for the Texas Farm Bureau Cotton Association, one of the most magnetic speakers on coöperative marketing that we have ever heard appeared before the State Convention and pulled the trigger and the gun went off and one thousand bankers in the State Convention unanimously endorsed our coöperative marketing plan. Imagine how thoroughly we covered the State with the news of this endorsement. All during this time we were sending out a general news service to every daily paper in the State, and to every weekly in the State, and we were furnishing the farm papers with just as much material as we could persuade them to take. This helped to sell the bankers, too.

"Leading business men were handled in much the same way as were the bankers. Speakers attended conventions of retailers and explained the plan. Our house organ, "Farm Business" was sent to every chamber of commerce in Texas, and to leading business men as well. Our general news service went into all the papers of the State and was read by business men. We sent the Farm Bureau News and the special edition of the Progressive Farmer to the same name list. Workers in the movement attended meetings of business men's luncheon clubs such as the Lions, the Rotary Clubs, the Kiwanis, advertising clubs or ad. leagues, and similar organizations. One of the best evidences that we succeeded in selling a great many business men on the plan is the fact that when we put on Victory Week, we were able to have many towns in the State where every business house was closed on the big signup day named in our campaign plan. Of course, all this preliminary work with the bankers and business men was for the purpose of ultimately selling the farmer.

"Now, how did we sell the farmer? To begin with, every member of the Texas Farm Bureau Federation had been receiving copies of the Farm Bureau News for several months. We had been flooding it with material dealing with coöperative marketing. The time had come when we were almost out of soap and we had to figure on some big stroke that would tear the State wide open. What could we do? There was one man in the United States who could sell coöperative marketing better than anyone else in the world. That man was Aaron Sapiro. We decided we wanted him to talk directly to the farmers themselves. We wired him. We conferred with him and finally obtained his consent to deliver eleven speeches at strategic points where our cotton is produced. Here is where our cotton production map came in handy. It was our problem to cover the State as thoroughly as possible with ten speeches as it had been determined already that Aaron Sapiro should deliver a speech to the Texas Bankers Convention at San Antonio.

" . . . Sapiro woke them up and the publicity which followed his speeches exceeded anything which he had hoped; for example, at Abilene twenty-five hundred farmers walked nearly a mile through the streets following Sapiro from place to place in their endeavor to find a meeting place large enough to hold the crowd. The crowd did not break up. It stayed together and it filled the streets like an army, and when they finally decided to try the First Baptist Church, with a seating capacity of 2500, the big crowd broke into a run several blocks before the church was reached, every man anxious to get a seat so that he could hear Sapiro talk. After he got the crowd in the church, Sapiro held them for three hours while he talked coöperative marketing. At times the crowd was so quiet that you could hear a whisper; again Sapiro would evoke thunders of applause and wild cheers when he pictured the plight of the farmer and the solution. It was the same all over Texas. Sapiro 'delivered the goods.'

"Several weeks before he entered the State, we prepared a series of about thirty stories consisting principally of quotation of Sapiro's addresses and furnished every paper in the State with these stories and the advanced notice of Sapiro's

coming, as well as a copy of his itinerary. One of the reasons Sapiro had such large crowds was because the newspapers printed these advance stories. They printed them because the truth was in them, and when Sapiro came, he lived up to the expectations aroused by these stories. The newspapers of the State printed pages and pages about Sapiro, about his operations, and about our marketing plan. An assistant in our publicity department formerly with the Dallas News went with Sapiro to every point in the State. In our office we had prepared advance copies of the speeches which Sapiro was to deliver. These had been furnished all the newspapers of the State. Our reporter would write a lead in each town where Sapiro talked just as soon as Sapiro had finished. Thus he featured the response which Sapiro had received and the general tone of the meeting and such other local color as he thought best. Following the meeting he would wire all the principal papers of the State from 50 to 1,000 words according to the importance of the paper and its distance from the speaking point.

"Following Sapiro's speaking tour, Colonel Clarence Ousley, formerly Assistant Secretary of Agriculture of the United States, was obtained to speak in all those sections not covered by Sapiro's tour. There are many who are of the opinion that Colonel Ousley's work in the campaign was the most effective that was done. There is not an important cotton county in the State in which Colonel Ousley did not talk.

"In addition to this, we obtained Carl Williams of Oklahoma for five talks, and Bradford Knapp of Arkansas for five. These men were what you might call the big guns of the speaking campaign. Immediately following them, we shot men into every cotton county in Texas. Such speakers as Walton Peteet, Director Commodity Organization, W. B. Bizzell, President of A. & M. College, Judge S. A. Lindsey, President of City National Bank of Houston, Colonel P. L. Downs, Chairman of the Agricultural Committee of the Texas Bankers Association, and a score of others just as important, but whom we have not time to mention here, went out to sell the coöperative marketing idea.

"Then came school house meetings in which the farmers themselves sold the idea to each other.

"One of the most tedious jobs of the campaign was the planning of the itinerary of the speakers. We had a set plan for publicity. Certain stories preceded each speaker and then reports were made of his talk and multiplication of his message was achieved through the wonderful coöperation of the press of Texas. It might be interesting to know that there are about 900 newspapers in the State, over a hundred of them being dailies. In many instances we used page advertisements in the papers to draw attention to the coming of our big speakers and in every instance we found that it paid. Don't forget this. Every day we sent out daily news stories and once a week we sent the weeklies something and sometimes we furnished the farm papers and Sunday papers with feature stories. Just at the beginning of the campaign the Progressive Farmer got out a special Farm Bureau Edition, and all during the campaign and following it the Progressive Farmer was constantly filled with stories explaining and indorsing coöperative marketing. The Semi-Weekly Farm News published some separate stories on coöperative marketing and the Farm Bureau. The Southland Farmer at Houston reproduced our broadsides on the back page and printed numerous stories dealing with our plans.

"All this time the Farm Bureau News was going to our members and in it we told about our plans and the progress of the campaign and gave directions to the workers in the campaigns in each county. I don't know what we would have done if we had not had the Farm Bureau News but you know the postal authorities will allow you to send only so many copies under second class mailing rates. For this reason we got out a broadside the title of which was "Which Will You Choose," and we mailed this under 1 cent postage to hundreds of thousands of farmers in the State who did not get the Farm Bureau News. We distributed it at school house meetings. It was tacked up on country stores, gins, and other public gathering places, and it served a wonderful purpose in crystallizing sentiment for the organization. We translated this broadside into Bohemian and sent it among Bohemian farmers. Some of

the publicity men of the various Farm Bureaus in the United States received copies of this broadside and many of them wrote back congratulating us on the fact that we had gotten out a Spanish circular for the Mexicans, but it was Bohemian. It might be of interest to say that our news stories in Texas have been printed in five languages, and that a conservative estimate of the amount of space devoted to the Farm Bureau is something like a quarter of a million dollars in the last twelve months. The Bohemian newspapers were particularly kind, but you could read about the Farm Bureau in Spanish, German, Swedish, Bohemian, and English.

"Other devices used to attract attention during the campaign included an honor roll, the wearing of Farm Bureau buttons, and the use of auto stickers and gate signs. The honor roll was created, being a direct appeal, sent to every member of the Farm Bureau with self addressed envelope in the corner of which was printed "My Declaration of Independence."

"All of this preliminary work was for the purpose of getting ready for the most vital and most important part of the campaign, and this was the personal conviction of the farmer and the obtaining of his signature to a contract for the delivery of his cotton to the Association for the next five years.

"Contracts were signed all during the preliminary campaign, but the week of June 20-25 was designated as 'Victory Week' during which time the whole State was allowed to participate in getting signatures. Committees of farmers and business men got busy and in many towns in the State, stores were closed all day one day during the week.

"June 27 was designated as 'Close-up Day.' Many newspapers got out special editions on June 22, 23, and on the last day of the campaign more contracts were signed than during the entire week preceding.

"During the last week at least one third of the contracts were obtained. On July 4, Farm Bureaus in many parts of the State celebrated a double declaration of independence.

"The campaign was over, but contracts are still being signed."

The above statement gives an idea of the intense campaign which was waged during the four months of spring, 1921. During the last two months the committee had one hundred and twenty-five organizers at work securing contracts. In this they were assisted by fifty county Farm Bureau units, as well as by numerous committees of bankers, business men and farmers. In general the county agents of the Extension Department gave very able assistance, though this was in a sense unofficial, and varied with the inclinations of the individual. Shortly after the Membership Campaign began, Director T. O. Walton sent to each county agent definite instruction regarding his proper relations to the new program, and his legitimate activities in the campaign, as follows:

"If the Farm Bureau has been organized in your county, you should keep in closest possible touch with its Board of Directors and with the membership, giving them such aid, counsel and assistance as may be of value to them in working out their problem. If the Farm Bureau has not been organized, you should not take it upon yourself to 'put over' the membership campaign. You should first ascertain whether your representative farmers desire to enter an organization. If it is your judgment that a considerable number of your such farmers desire to enter an organization, you should arrange with the State Farm Bureau headquarters to send a representative to your community to meet with the representative farmers of every section of the county, at which time the Farm Bureau movement should be explained. After the Farm Bureau organization has been explained to them, they should decide for themselves whether they desire a membership campaign conducted. It will be best for those attending the meeting to take a vote on this question. If the farmers approve the objects and purposes of the Farm Bureau and decide in favor of a campaign, you should then help the district organizer to select a campaign committee and such other committees as may in his judgment and the judgment of the farmers, be necessary to 'put over' the campaign, after which you should

leave the actual task of conducting the drive in the hands of the Farm Bureau campaign committee and the solicitors of the State Farm Bureau. You will have performed your full duty if you help to select the right kind of committees in the several communities and give such information to the Farm Bureau representatives as will enable them to keep in touch with the right men in your county. In other words, the task of actually soliciting memberships is not the responsibility of the county agent. It is his duty to help the farmers in every proper way to organize themselves and to give them information and direction in these efforts."

Mr. Evans of the United States Department of Agriculture sums up the assistance given by the county agents in the following sentence: "It is safe to say that without the assistance given by the county agents and other extension workers during the organization campaign, the State and local Farm Bureaus would undoubtedly have failed to secure the minimum number of signatures required by their contract before July 1." [4]

The arguments used by the various solicitors in securing members for the Association varied as widely as the necessities of the case seemed to warrant, and the ingenuity of the individual solicitor suggested. However, in all the material sent out from campaign headquarters, and in the speeches of the key men there were certain major arguments presented. These in general followed closely the line of reasoning of Sapiro's first Montgomery, Alabama, statement. They were brought home to the farmer in every way known to the modern technique of propaganda. They formed the keynote of every speech. They were written into editorials, feature stories, and advertisements. They were blazoned on billboards, and bulletin boards, and painted on barns. They were discussed in country schoolhouses and in the State Legisla-

[4] The Development and Progress of Coöperative Cotton Marketing Associations, by J. A. Evans, Department of Agriculture, 1922.

ture. At camp meetings, Confederate reunions, county fairs and cock fights one would meet them. In short, by every medium through which the farmers could be reached and influenced, these arguments were carried to them.

An analysis of publicity material of the campaign shows that the central theme was the price of cotton. The whole mass of argument revolved around this focal point: the price of cotton was to be raised. This highly desirable result was to be achieved by various devices. The following ones were formulated by the committee and in one form or another appear in all the campaign material used.

First, the price was to be raised by eliminating the speculator and the gambler. Probably no single theory is more generally and strongly held among cotton farmers than that cotton speculators reap a rich and regular harvest at the expense of the farmer. The fact that the trading in future contracts on the New York and New Orleans Exchanges amounted to ten or fifteen times the total cotton production of the country was headlined "Cotton Crop is Sold Fifteen Times." The average farmer knows the process of selling from his experience of selling his three or four bales to a street buyer after a half day of higgling. This picture, of a host of buyers and sellers stretching away from the local market to the mill (in Manchester or Fall River) each interested in buying cheap and selling dear, suggested to him one explanation of the disastrous drop in prices in the previous eight months. Sapiro had said, "Every cotton crop you produce makes a bunch of millionaires over in Liverpool." All these gamblers who had for so long fattened upon the labor of the farmer were to be eliminated by the simple process of having the farmer take his cotton straight to the mill. One of the famous cartoons used throughout the campaign depicted the old system of marketing in

the character of a farmer with his load of cotton winding his devious way down the path from farm to mill. At every strategic point of this tortuous road a gambler, speculator, useless middleman, or Wall Street banker was stationed, demanding his toll. The great highway of coöperative marketing cut straight through to the mill, eliminating all pitfalls and dangerous curves. On this road a contented farmer went his businesslike way, prosperous and unhindered. There was enough of truth in the basic assumption underlying this, and it formed such an integral part of the ideology of the cotton farmer that it could always be counted upon to create a profound impression.

The place of second importance measured both by the significance attached to it by the Campaign Committee and by its influence upon the farmers was undoubtedly the proposition that the price of cotton would be raised by substituting orderly marketing for the traditional system of dumping. This proposition was the keystone of Sapiro's whole structure of logic. He used it in every speech. It appeared in the form of cartoons, advertisements, editorials, pamphlets, news stories, and feature articles. It was used by key men, field service workers, publicity managers, county agents, and contract salesmen. So far as the records show, no speech was made during the campaign which did not reveal it in one form or another.

Of course, the thesis that dumping depresses the farmers' market was not originated by Sapiro, nor by the Committee. For twenty years the Farmers Union had maintained it. It was the cardinal principle of the Southern Cotton Association, and of the American Cotton Association, as well as of every other significant organization of cotton farmers. In fact, it would not be far wrong to say that it had assumed the nature of an axiom.

It is not sufficient to point out that the argument is false. It was a part of the basic body of belief of the cotton farmer. When a method, which was apparently simple, sound and workable, was proposed to eliminate the dumping evil, this presumption furnished a powerful medium for the propagation of the new idea. Today we know that the "Autumnal Dip" is a myth. But it is a myth believed by millions, and like many another has influenced human actions more than a score of obscure truths.

Correct grading and stapling was a third method by which the coöperators purposed securing a better price. In this case they were on safe ground. The loss through incorrect classing of cotton in the local markets was notorious. Every investigation made by the United States Department of Agriculture had shown a deplorable lack of proper price relationships between the different qualities. The annual loss to the farmer from this failure of the traditional marketing machinery was tremendous.

The coöperative expected immediately and permanently to solve this difficulty for Association members by the simple expedient of having their cotton classed by experts, and sold on the basis of this correct classification. Returns were to be received by the individual grower according to the relative spinning value of the cotton he produced.

One of the illustrations effectively used by Sapiro, to show the farmer what lack of proper grading meant to him in the price received for his product, is worthy of note. During the 1920-21 season the farmers of the tobacco belt were being organized into coöperatives similar to the one we are considering. The previous system of marketing tobacco had been essentially the same as that for cotton. The tobacco, in large baskets, would be placed in rows on the auction floors. The buyers would walk up and down between these rows sampling and making bids.

Sapiro entered a basket of tobacco on one of these large auction floors. After a buyer had sampled and bid for it, Sapiro would change the tag and slip the basket to another row. He states that during one morning he sold that same basket of tobacco ten times at prices ranging all the way from 7¢ to 28¢ per pound; and the buyer who bid 28¢ had already bought it once that morning at 11¢!

While this was undoubtedly an extreme case with no exact parallel in cotton, yet the investigations of the United States Department of Agriculture had indicated that similar conditions prevailed throughout the cotton belt. The analogy was close enough.

The elimination of country damage was a fourth practice of the coöperative to insure the grower a better price for his cotton. Every season millions of bales are damaged by exposure to the inclemencies of weather. Often the bales are thrown on the ground at the gin, or hauled to the farmyard of the owner and there placed on fence rails to protect them from actual contact with the ground, but with no covering whatever. Here the bales lie, often for months, until they are finally taken to market. Naturally the fiber exposed to the weather, and especially that part of it in contact with the ground, deteriorates. Fortunately this deterioration is a slow process. There are no authoritative figures on the loss of value resulting, but the United States Department of Agriculture has estimated it to average about $2.50 per bale. Calculated on the basis of an annual production of over 4,000,000 bales in Texas this constitutes a very impressive figure.

The coöperative proposed to eliminate this loss entirely by having all member cotton properly warehoused immediately after ginning.

A fifth, and minor economy which the coöperative could promise its members was the elimination of the "city crop." Under the traditional system of marketing, from three to ten samples, weighing from four to twelve

ounces each, are drawn from each bale of cotton. These samples are often thrown on the ground, or on the floor of the warehouse, and later gathered up, baled, and sold. The loss to the individual farmer from this source is doubtless small, but in the aggregate it is a rather significant item.

A sixth economy which the organizers promised their growers has probably been of more value than any of them realized at the time. This is the saving on fire insurance, and from fire losses, due to having their cotton stored in the best type of warehouse. This argument was heard only occasionally during the campaign; while today it is recognized as one of the very real and substantial savings made by the Association.

A seventh argument, strongly presented by Sapiro was the advantage of determining the price of a product at the point of consumption, rather than at the point of production. In fact, he called this "the key-rule of coöperative marketing." He argued that the determination of price at the point of production, especially if the sale of the product were in the hands of a great number of inadequately trained, and erroneously informed sellers, inevitably meant that the middlemen would secure a disproportionate share of the consumers' price as a reward for his services. Undoubtedly there is a strong element of truth in this contention. While any very marked increase in the price which the consumer pays for the product ultimately will be reflected in the price received by the producer, this will be accomplished through a long chain of agencies any one of which may find itself in such a strategic position that it may appropriate more or less of the resultant advantages. In some cases they may never reach the producer at all. Probably in every case they will be reflected tardily, and in diminished amounts. This results from various conditions. The machinery of the distributors is organized to take advantage

of just such situations. Some of the distributors may be in peculiarly strategic positions. Usually they are much better organized than either producers or consumers. Always they are better trained, and have more accurate and detailed information.

On the other hand any diminution in the consumer demand may be reflected back to the producer's price almost immediately. Undoubtedly in some cases of this sort part of the decline of consumer prices is born by the trade until it can be shifted back to the producer. However, the United States Department of Agriculture investigators were of the opinion that a decline in export prices for cotton was reflected within twenty-four hours in a still greater decline in the local markets in Oklahoma.

Such a system of price determination, with strongly entrenched, highly organized, intelligent, and powerful groups standing between the producer and his real market, and taking toll of all the traffic that passed, was attacked forcibly by Sapiro. It was admitted that some of these groups were performing essential functions; but they were receiving rewards entirely out of proportion to these functions. There was sufficient evident truth in this contention, and it was so much a part of the everyday mental capital of the cotton farmer that it made a powerful argument for purposes of the campaign. While the coöperators purported to hold the Law of Supply and Demand in all proper reverence as the ultimate and invincible (not to say omnipotent and amaranthine) regulator of prices, yet they contended that it was not automatic nor self-regulatory. In other words, that it operated through various agencies; and these agencies were almost always controlled by human beings. Further, that these human beings themselves were sometimes actuated by the profit motive which is reputed to lead one to buy as cheaply as possible and sell as dearly. In short, here was a system which made it profitable for certain individuals

and groups to drop an occasional monkey wrench into the machinery. How could one expect the Law of Supply and Demand to work smoothly and accurately under such a handicap?

In contrast with this the coöperators would set up a system under which the Law of Supply and Demand would be given an opportunity to perform its legitimate functions without any artificial interference by mere man. The farmer, through his association, was to take his product direct to his consumer, the textile mill. He would be equipped, through his salaried officials, with as much intelligence, bargaining ability, and financial staying power as the buyer. Consequently here would be a market in which the buyer and seller were equal in all things (or maybe the seller would have just a mite the advantage). And consequently here the Law of Supply and Demand would have an actual opportunity to redeem its clouded prestige, and fix some prices.

Eighth, the coöperative method, by substituting one seller for the many, would materially aid the farmer in getting the price he wanted for his cotton. This argument was closely related to the one above, and often used in connection with it. Peteet expressed this view as follows: "In all commerce where there are many sellers and one buyer, the buyer must fix the price; but where there is one seller and many buyers, the seller must fix the price; and the one who has the right or privilege to fix the price will fix it to his own advantage."

This idea was rarely expressed in such unequivocal terms, but it undoubtedly formed a strong undercurrent throughout the entire compaign. Of course, the opinion as to just exactly what it meant differed as greatly as the mental equipment of the various farmers. To some it meant merely that by united selling the farmers would be able to secure more nearly the total amount paid by the spinners. Others undoubtedly expected the farmers to

be able to actually determine just what the price of cotton should be, and to force the spinner to pay that price. The number of farmers who were willing to organize when cotton was 35¢ a pound for the purpose of demanding 40¢, and when it went to 40¢ to continue to hold for 50¢ shows how strongly this idea has taken root in the South.[5] The Farmers Union, the Cotton Growers Protective Association, the American Cotton Association, the Southern Cotton Association, and the Southern States Cotton Corporation have all embodied it in their basic plans of operation. The theory is usually expressed that by concerted action the growers would be able to secure a fair price for their cotton; the fair price being determined by "the cost of production plus a reasonable rate of profit."[6] Needless to say, both the "fair price," the "reasonable rate of profit" and the "cost of production" are capable of a variety of interpretation.

While the argument appeared in various forms, and with various connotations, the more intelligent leaders expected the new marketing machinery to stabilize prices. And this stabilization was usually expected to be on a higher level than that prevailing at the time, whether the association was organized when prices were down to 10¢ a pound, as in Texas and Oklahoma, or up to two or three times that level as in the case of some of the later organizations.

The tremendous advantages to be gained by handling financial problems coöperatively was a ninth argument adduced in favor of the coöperative. It was argued that a powerful central organization with millions of dollars worth of warehouse receipts, one of the very best forms

[5] I do not have to go beyond my own family for illustrations of this. There was one case, I remember, where cotton was held all the way from 45¢ down to 11¢ in an attempt to force it up to 50¢!

[6] e. g. Speech of C. S. Stealey, president of the Oklahoma Association, before the American Institute of Coöperation in Philadelphia, August, 1925.

of collateral known to modern commercial finance, would find itself in a position to secure much better terms from money lenders than would the individual farmer. Granted the validity of the argument for marketing cotton in an orderly manner, the logic of this is irrefutable.

Even during the first membership campaign some of the leaders were beginning to talk about production credit; and to point out the distinct advantages of handling this most vital problem through a coöperative agency. Their arguments at the time were vague, and even now some of the intelligent leaders question the wisdom of permitting the association to enter this field of finance. At any rate, the argument elicited a favorable response from many perennially needy farmers during the first campaign. And today practically every cotton coöperative is committed to an ambitious program of production credit.

A tenth method proposed by the coöperative to maintain permanently the price of cotton at a higher level was to increase the demand for it through extensive advertising. All of the argument on this score was by analogy; most of it formulated by Sapiro. Stories were told of the tremendous increases in the demand for citrus fruits, walnuts, and raisins. The production of all these had been increased at astounding rates; but always demand had been stimulated even more rapidly by well-planned advertising compaigns. The result was that the producer found a lucrative market ready for all the product he could raise.

That the same thing could be done for cotton was inferred and even occasionally stated in so many words. This is a dubious analogy. Certainly the creation of a new demand for cotton involves numerous factors not present in the other cases. The tremendous expansion in demand for certain fruits and vegetables during the first two decades of this century was due to many things be-

sides the advertising methods of the California Coöperatives. But even if one should admit all the claims of the advertisers they would mean little or nothing when carried over into the field of cotton marketing. It would take a severe effort of the imagination to conceive of a doubled or trebled world demand for cotton during the next twenty years. On the other hand, the possibility of expansion of production in the cotton belt is apparently almost limitless. The increase in area planted, since the War, amounting to 14,000,000 acres (approximately 8,000,000 in Texas alone) indicates the flexibility of this important factor of production. Methods of controlling the boll weevil are being rapidly perfected. The experiments with new and improved varieties of cotton promise significant results.

In addition to these important economic advantages of the new program, the coöperators urged certain significant social advantages. Sapiro never tired telling of the good roads, prosperous churches, pleasant homes, excellent school houses, and fine democratic spirit of the rural communities in California. The story of the regeneration of rural life in Denmark through coöperative associations was recounted by every speaker. The contrast with conditions in the cotton communities was obvious, and too painful to require comment.

All these arguments were carefully canvassed by the Committee, organized into logical groups, stated as concisely and convincingly as the ingenuity of the Committee permitted, and then fired at the farmer through every medium of propaganda at their command. As expressed by the Director of Information, the key men Sapiro, Carl Williams, Bradford Knapp, John T. Orr, C. O. Moser and Clarence Ousley, were the heavy artillery. They were employed against strategic strongholds, to wit, the bankers conventions, State Legislature, retail merchants associations, chamber of commerce, trade or-

ganizations, and central farmers' gatherings. After them came the divisional artillery; dozens of speakers of somewhat lesser prestige and power. They bombarded the county fairs, barbecues, and community gatherings. The seventy-fives and machine guns: news releases, house organs, cartoons, advertisements, feature articles, farm magazines, billboards, and the daily press—laid down a searching barrage. And finally came the infantry—contract salesmen, county agents, farmers' committees, house to house canvassers—to mop up. The ammunition was supplied from general headquarters in Dallas, and was limited to a few uniform and sure-fire types.

It is impossible to estimate statistically or abstractly the effectiveness of this great compaign. To one unacquainted with the conditions it would appear as a colossal failure. To one who understands agricultural conditions in Texas, and the psychology of the cotton farmer, it is a source of some wonder that even the meager degree of success attained was possible. As a matter of fact, we do not know what degree of success was attained. We do know that 19,146 contracts were signed; and that these contracts indicated that the farmers who signed them produced approximately 600,000 bales in 1920. That some of these were "padded" is highly probable. Three factors made this almost inevitable: (a) The field men were paid commissions on a basis of contracts secured. (b) The contract signer was charged a membership fee of $10.00, but he might authorize the Association to take this out of the proceeds of the sale of his cotton, and consequently if he delivered no cotton, it cost him nothing to sign. (c) No method was developed during the campaign for detecting or preventing collusion between the salesmen and the signer.

At any rate, when the last strenuous day of "Victory Week" was done, and the Committee tabulated the results it was found that approximately 600,000 bales had

been signed up. This was far short of the "Million Bale Pool" upon which the legality of the membership contracts were contingent. However, it was over the half million bales which had been designated as the minimum under which the Committee could complete the organization. After a careful survey of the whole subject the Committee decided to exercise its optional powers and organize the Association.

To do this they were required by the Association Agreement to give every contract signer an opportunity to cancel his signature. This was done between July 1 and 15, and as the number who withdrew did not reduce the total cotton signed below 500,000 bales the Committee drew up Articles of Incorporation. And thus on August 27, 1921, came into existence the Texas Farm Bureau Cotton Association.

CHAPTER V

THE FIRST YEAR

THE little group of twenty-three farmers who met in Dallas on July 27, 1921, faced a stupendous task. They had been selected to put the new marketing machinery into operation. It is safe to say that not a single member of the group anticipated the amazing complexity of their problem.

The marketing of cotton is one of the most intricate economic functions in the whole range of modern business. Very few men have been notably successful in mastering its complications. One might count on the fingers of one hand the really great cotton merchants of America.

Yet this group of twenty-three farmers, most of whom had only a hazy knowledge of the Trade, were suddenly commissioned to operate what appeared to be one of the largest agencies in the entire cotton world. The fact that they were not completely discouraged from essaying the undertaking is due as much to their ignorance of its multifarious ramifications as it is to their initiative, intelligence, ambition and desperation.

The members of this first Board of Directors had been selected in accordance with the stipulations of the Association Agreement. All of them were farmers who had been active in promoting the organization campaign. Two or three of them were bankers as well as cotton growers. practically all of them had served their apprenticeships in such farmers' organizations as the Farm Bureau Federation, the Farmers Union, and the American Cotton Association.

In short, they represented the best type of the successful Texas cotton farmer, with his virtues and vices. They were intelligent, honest, and immensely serious in the work they were undertaking. I have never known a group of men in so responsible a position who were more open-minded and intellectually honest in the interchange of ideas, and in willingness to have their proposals carefully analyzed and criticized. Desire and capacity to learn has characterized them throughout the past five years. Whatever success the Association has achieved thus far is due to the sterling qualities of the Board members more than to any other single item.

On the other hand, as a group, they had the intellectual and experiential limitations of the cotton farmer. They had had very little previous experience with "big business." They had never thought in terms of millions. They knew next to nothing of the technique of modern business organization and control. And, too, they held by the old mythology: an almost superstitious fear of the power of "Wall Street," the trusts, the gamblers, and the cotton exchanges; and firm adherence to the classic economic philosophy of self-help, free enterprise, free competition, and the beneficent Law of Supply and Demand.

It is interesting to note that the three Public Directors, appointed by the Governor, the President of the Agricultural College, and the President of the Farm Bureau Federation to represent the public interest, have always been members of the same group as the other directors. Every one of them has been a large cotton producer, and a member of the Association. In all externals they are indistinguishable from the other directors.

The new Board held its first meeting on July 27. During the next five months either the Board or its Executive Committee was in almost continuous session. New problems arose daily. A mere enumeration of them would fill many pages. Many of them were matters of technique

and the business routine of a great corporation. On these the Board had some invaluable assistance from the experience of the old line cotton firms, in so far as the records of these experiences were available to them.

On the other hand many of their problems grew out of the particular form of business organization, and so were entirely new. On these the Board had few, or no, precedents of any value. These simply had to be met and solved as they appeared. In their solution the Board was forced to follow its own judgment until experience or reason should suggest a better form of procedure.

The first task for the new Board was the selection of officers for the Association. This was as important as it is in the case of any other large corporation. The Board is the official control agency set up. The determination of basic policies is its function. This the Board has strictly and consistently maintained against all attempted encroachments from either the membership or the officers. On the other hand, the carrying out of these policies, the day by day direction of operations, is the work of the officers. Consequently, their selection is only second in importance to the policy-making function. No group of basic principles could put itself into operation. No body of policy, however well formulated, and however sound, is automatic.

When the new Board began to consider this problem, it was found to be a most puzzling one. Some of the official positions, as for instance those of treasurer, office manager, salesman, and head-classer, required a very high degree of technical skill and training. The men to fill these positions had to be drawn from the Trade, and the business world. Adequate remuneration was requisite in order to attract the type of men best qualified to do the required work.

During the organization campaign much had been said about the necessity of securing properly trained experts

in all technical positions. Sapiro had stated this as one of his Fundamental Principles. It had been pointed out that no small measure of the success attained by the California Coöperatives had been due to the high type of technicians employed. Sapiro once said, "The Coöperatives will not demand a fair price for prunes, and deny a fair price to brains."

But it must be remembered that these Directors were cotton farmers. Few of them had any knowledge of the proper salaries necessary to attract the required experts. The money incomes of cotton farmers, even of the more successful ones, have been notoriously low for fifty years. Hence the difficulty was the securing of competent officials without having to pay salaries too far out of line with the incomes of the cotton growers themselves.

This problem has faced every coöperative of the new centralized type organized since the War. The various attempts at solution will constitute one of the most interesting chapters of coöperative history. One of three serious mistakes is likely to be made. Each has been made many times by new boards of directors. First, the board may be too strongly impressed with the necessity of paying extremely high salaries. This may lead to serious results. In certain cases it has spelled disaster for the coöperative. The salaries paid may constitute an overhead expense out of all proportion to the business handled. Also, very high salaries may cause serious defection in the rank and file of the membership, who fail to see the necessity for such princely remuneration to the "white collared" officials.

Second, the board may underestimate what it will have to pay for efficient service, and so fail to secure it. To farmers, who have always considered incomes of two or three thousand dollars rare and fortunate, the proposal to pay salaries of ten, fifteen, or twenty-five thousand

dollars is grotesque. This danger from underpayment of its technical experts is a continuing one. Too often the coöperatives have been mere training schools for young men who find in them an easy method of securing the necessary experience and training for entering the commercial trades. Few of the cotton coöperatives have escaped this constant defection of their most desirable young men as their apprenticeships have made them valuable to some old line cotton merchant.

The third mistake appears to be the most common of the three. Quite often the board is willing to pay sufficiently high salaries to secure efficient and intelligent officers, but apparently fails to grasp the idea that such remuneration, of itself, will not insure the selection of the proper men for the work. Customarily, the members of the board have had little business experience themselves. They have not been in the habit of employing technical experts. Like most of mankind, some of them might even be accused of occasional gullibility. The result is, that all too often coöperatives pay excellent salaries and secure very mediocre service.

It is easy to point out these dangers. It is not so easy to sit on a board of directors and avoid them. It is not even easy to say that a given board has consistently fallen into one or another of them. As a matter of fact, probably most boards, at one time or another, have run afoul of all of them. Certainly this is true of the Board of the Texas Farm Bureau Cotton Association.

When the Board began the actual work of selecting officers and technicians, it found its field severely restricted. The men who had created the organization were to be reckoned with. Their group certainly included most of the prominent agricultural leaders of the state. They undoubtedly knew more about the organization than any outsider. They were available. The Board had neither the

time nor the inclination to look elsewhere. Consequently, the first staff of officials was handpicked from among this group of promoters.[1]

In some cases this carry-over of the evangelical promoters into the permanent body of coöperative association managers and officers has been disastrous. All too often the very individuals who are most effective as campaign orators lack those qualities necessary to a successful business executive. The Texas Association has apparently suffered only slightly on this score. Some dead timber was acquired, and it has taken years to work it through the mill and discard it. But some of the promoters were well-trained business men. A few of these, selected by the first Board as members of the official staff, have continued with the Association and have formed a strong nucleus of intelligent and proficient leaders during this critical period.

As soon as the staff was completed the Board secured office space in the building occupied by the Farm Bureau Federation and announced to its members that it was ready to begin operations.

The next six months was an amazing hurly-burly of activities for the Board and the central office force. Every day brought its round of perplexing problems for which no precedent offered a solution. Twenty thousand members had to be instructed in the use of the new devices of marketing which were being constantly formulated and almost as constantly revised and modified. And it must be remembered that most of these problems and devices were as unfamiliar to the officials as they were to the general membership. Some of these leaders had learned to talk glibly of merchandising, direct selling, marketing credit, grading and classing, pooling, insurance—and all

[1] The official staff was composed of the following men: President, John T. Orr; Vice-President, W. D. Farris; Secretary, D. G. Hill; Treasurer, Sloan Simpson; Sales Manager, W. L. Trout.

the other shibboleths of the new order. Few of them had even a speaking acquaintance with the multifarious technical contrivances necessary to a proper handling of the job they faced. Not a half dozen office forces in the cotton world could have handled the problems incident to the marketing of 600,000 bales of cotton. Yet here was a new marketing agency, with an untrained office force, an untried official staff, and an unequipped board of directors apparently facing that very situation. A mere statement of the more significant questions demanding immediate consideration will give an idea of the amazing complexity of the problem.

Technical Problems:

How were deliveries of cotton by the members to be obtained? How were 20,000 cotton farmers to be instructed in the use of the necessary drafts, bills of lading, assignments, warehouse receipts, and other technical papers incident to the surrender of title? How were these, and the numerous other necessary forms, to be drawn? When, where, and how was the Association to assume title to the cotton? Where was it to store 600,000 bales of cotton? Where, how, and when was this cotton to be compressed? How, when and against what risks was it to be insured? Where were the necessary expert graders and classers to be recruited? How, when and by what system should grading and classing be done? How was a product as heterogeneous as cotton, scattered over a territory as large as the German Empire, to be "pooled in even running lots by grade and staple"? Just what was the proper procedure when cotton was lost in transit, or was shipped under a wrong sort of bill of lading, or was burned in a warehouse or compress, or lost or gained weight while in the hands of the Association, or exhibited any of the well known thousand and one perversities common to cotton?

Legal Problems:

To what extent could such an Association go in performing its functions without running afoul the Federal Anti-trust Acts? How long could it hold cotton? Could it enforce delivery from recalcitrant members? Could damages be recovered from members who violated their contracts? Would the courts grant injunctions and decrees of specific performance against obdurate violators? What were the legal rights and duties of officers and directors? Would the Association contract take precedence over a mortgage, or a crop lien? Would methods of making distributions to members be subject to court interference? Could the Association hypothecate member cotton for loans? Could the Association hedge its sales on the futures exchanges?

Financial Problems:

How was the Association to secure the necessary finances for carrying 600,000 bales of cotton through a marketing period of twelve months? What agencies were available for providing this immense line of credit? Could the Association expect any assistance from the Federal Reserve System? Should the Association attempt to secure credit from local banks, or should it try to establish connections with Eastern banking firms? What kind, or kinds of credit should the Association employ? Where was the Association to secure money for ordinary running expenses? What agencies should the Association use in handling its funds? How much should the Association advance to its members on delivery? How was this initial payment to be made? How often, and under what conditions were further payments to be made? How was the Association to solve the difficult financial problems involved in handling mortgaged cotton? How was the Association to convince the cotton merchants, warehousemen, compressors, transportation companies, insurance com-

panies, and others with whom it maintained contractual relations, that it was financially responsible for the execution of its contracts?

Marketing Problems:

Should the Board of Directors sell the cotton themselves, or should they delegate this most important function to some expert employed for that pupose? If the latter, how were they properly to supervise his work? How should sales be distributed throughout the year? Did orderly marketing mean the sale of a certain percentage of their cotton every month, or every week, or—just what did it mean? How were contacts to be made with spinners, importers, exporters, factors, and other potential purchasers? Should the Association insist upon selling direct to the spinners? Granted the legality of such action, should the Association hedge its cotton? Upon what credit terms should sales be made? Should the Association sell on call? Should the Association attempt to sell cotton by description, by type, or by actual sample? How should a contract of sale be drawn, and who should sign it? How was the Association to enforce its contracts with buyers? How were disputes over weight, grade and class of cotton delivered, to be handled? What was the proper procedure when a buyer refused to accept the cotton tendered on a contract? Where, and how was the Association to secure the most reliable market forecasts? Were these to be allowed to influence the Association in its policy of orderly marketing?

Practically every one of this bewildering array of questions had to be answered by the Board of Directors during its first two months of existence. This fact should be kept constantly in mind in any attempt to evaluate the work done.

The Board, with becoming fortitude, set its hand to the plow. The record of its attempts to answer these

questions and others which arose constantly as the Association got under way, is contained in the mass of documents comprising the Minutes of the Meetings of the Board. It would be impossible to cover all this record in a narrative of this scope. Only the more significant items will be considered.

Financial Problems

Even before the Board of Directors was elected some of the leaders of the movement had sent a committee to Washington to importune assistance of the Federal Reserve Board. Although the governor of that powerful body, Mr. W. P. G. Harding, was a strong supporter of the agricultural coöperative marketing movement, the committee from Texas was informed that under existing laws the Federal Reserve Banks were powerless to aid them.

The committee then presented their proposal to several New York bankers. But these gentlemen were extremely wary of advancing millions of credit to such an organization. As they viewed the situation, this was a new and untried business venture; its legal status was still to be determined; it had neither capital assets nor capital stock; its very title to the property offered as collateral was yet to be legally established; its functions, methods of operation, and body of business practices, were inchoate; its Board of Directors were new to the business, and unknown to Wall Street; and the whole venture was just another of those perennial schemes of the farmer to lay unholy hands upon the ark of established business sanction.

This abortive attempt to secure financial support in the East was made before organization was completed. Consequently, when the new Board assumed control, in August 1921, it was faced with the necessity of immediately starting again the onerous round. Cotton was already beginning to move. The amount which the Asso-

ciation was to advance to its members on delivery had to be determined, and the funds with which to make these payments had to be obtained. These initial advances would be delimited by the amount which the banks would lend on the cotton delivered.

In this emergency the Board presented their case to the local banks. Under the leadership of the American Exchange National Bank of Dallas, seventeen State banks [2] agreed to advance approximately fifty per cent of the market value of the cotton upon the proper hypothecation of warehouse receipts, compress receipts, and bills of lading. Practically all credit provided by these banks was loaned on demand notes, and was covered by cotton worth well over twice the amount of the loans. The rate of interest paid fluctuated between six and eight per cent.

Undoubtedly the most important and far-reaching event in the whole financial life of the Association was the appearance of the War Finance Corporation as a source of unlimited credit. This governmental agency was created during the War to assist private corporations in financing their war activities. In 1920 it was rechartered by an act of Congress which provided a fund of $500,000,000 to be used for various purposes, among others the financing of marketing agencies handling agricultural products. On September 9 Mr. Eugene Meyer, Director of this huge credit agency, agreed to extend a $10,000,000 line of credit to the Association. The collateral demanded

[2] American Exchange National Bank, Dallas; Austin National Bank, Austin; City National Bank, Dallas; Continental National Bank, Ft. Worth; Exchange State Bank, Ft. Worth; Farmers & Merchants National Bank, Ft. Worth; First National Bank, Ft. Worth; First National Bank, Houston; Ft. Worth National Bank, Ft. Worth; Guaranty Bank and Trust Company, Dallas; Lumbermans National Bank, Houston; National Bank of Commerce, Houston; South Texas Commercial National Bank, Houston; Southwest National Bank, Dallas; Stockyards National Bank, Ft. Worth; Texas State Bank, Ft. Worth; Union National Bank, Houston.

was less than that required by local banks, the rate of interest was somewhat lower, and the maximum time allowed for liquidation was nine months. Within three months the seventeen creditor banks had been reduced to three; the total amount borrowed from them, $2,725,-622.19, had dwindled to $605,000; and the rate of interest had materially declined. The credit position of the Association was secure.

It would be meaningless to assert that the financial policy of the Board was a success during this first year. There are no standards by which such success may be gauged. But it is possible to say that its work was decidedly creditable under the circumstances. It was able to finance operations in some sort of fashion: that in itself was a remarkable achievement. $5,929,298.82 was borrowed from the banks and from the War Finance Corporation, advanced to the membership, and later repaid without the loss of a single dollar to any of the Association's creditors and without the necessity of a single resort to the law courts. Furthermore, in all its financial operations this board of twenty-three cotton farmers exhibited a surprising and unexpected prudence and business sagacity. In that first year was laid the foundation of business practice upon which the continued life and operations of the Association are builded.

Distributions to Members

No policy of the Board requires more careful consideration, and conservative business judgment, than that relating to the advances made to members for delivered cotton. A single serious mistake here might mean disaster. The Board has consistently maintained the position that the Association cannot advance more to the member on delivery than the banks will lend on unclassed cotton. In fact, the initial advances each year have been begun well below this mark.

All of these first payments of necessity must be made out of borrowed funds. Further advances are made to the members as the cotton is sold. The amount and regularity of these payments depend upon the movement of cotton prices, and the sales policy of the Association.

The first payments made to delivering members, in September 1921, were on the basis of $25.00 per bale. That was slightly over 25% of the value of Middling cotton on the New York Market. During November the Association made its second distribution, of $15.00 per bale; another of $10.00 per bale in December; and during January its fourth, again at the rate of $10.00 per bale. As each of these distributions was made, the advance on new deliveries was increased by a like amount. In other words, the initial advance was started in September at $25.00 per bale; was increased to $40.00 in November, to $50.00 in December, and to $60.00 in January.

This cautious policy of making distributions only when liberally warranted by market conditions brought upon the Board the severe criticism of many members, and the scorn and derision of many non-members. However, it has undoubtedly had more effect than any other program of the Board in building the enviable credit rating of the Association, in the financial markets.

The last Association pool was sold in July, and the final distributions to members were made in August. The amount due each individual member was calculated in the following manner: The average price per pound for each pool to which he had contributed was multiplied by the number of pounds he had contributed to that pool. The sum of all these products was the gross price received by the Association for his cotton. From this amount the following deductions were made: (1) the advance payments which had previously been made to him; (2) his proportionate part of those costs of operating the Association which were allocated on a per bale basis; (3) the

specific charges, e.g., freight, interest on advances, and insurance costs, which were calculated on a specific cost of service basis; (4) his Association dues of $10.00; and (5) the one per cent of gross sales allowed for reserves. The remainder was the amount due him.

Most of the Directors and official staff had been well grounded in the Fundamental Principles of Coöperative Marketing during the year of organization activities. All of them could glibly pronounce the shibboleths of the new order. Some of them had made cursory studies of the financial and legal phases of the business venture they were launching. None of them had devoted much time to an analysis of the intricate technical problems involved. Yet the Association opened its doors for business in August 1921. The wonder is that they were able to meet the problems in any sort of fashion!

As soon as the Board declared the Association ready to begin operations members started delivering cotton, at first a few dozen bales a day, later scores, and finally thousands of bales. Forms of drafts, bills of lading, warehouse receipts, cotton tags, weight and class sheets, credit assignments had to be devised, and the farmers instructed in their use. Warehouse space had to be secured. Insurance contracts had to be made. Graders and classers had to be recruited. Plans for assembling and delivering cotton had to be formulated. The coöperation of local banks had to be obtained. Adequate and necessarily complicated office records had to be adapted, or invented, and an office force trained to employ them.

Inevitably much of this work was done in a haphazard and inefficient manner. Inevitably a great number of mistakes were made. Inevitably these mistakes were magnified by the disgruntled members, and resulted in serious discontent and defection.

One of the first policies formulated by the Board related to the warehousing of member cotton. Since organ-

ization was not completed until harvesting season was well advanced the Board did not have an opportunity to work out its policies beforehand. Many members in South Texas were ready to make deliveries before the Association was prepared to receive them.

The member was instructed to deliver his cotton to a public warehouse. If none existed in his locality, he was instructed to ship to the one nearest, consigning his cotton to the Association. With his warehouse receipt or bill of lading he could then go to his bank and draw a draft on the Association for the amount of his initial advance. Every bank in the state was kept informed of the amount the Association was advancing on delivery.

During the year, Association cotton was stored in seventy-one interior warehouses, all the way from Orange to Texline. Some of these warehouses were modern structures and well managed. Many of them were mere ramshackle sheds, and veritable fire traps. Consequently the warehousing and insurance costs varied widely from place to place, and on the whole were unreasonably high. The average warehousing costs to the Association were $2.00 per 100 bales per day; and the insurance costs $1.31 per $100.00 value per annum.[3]

The system of grading and classing employed by the Association was as chaotic as its warehousing. Several classers were employed at various times during the year to grade and class Association cotton, wherever a sufficient quantity was assembled in any one warehouse. In many cases the cotton was classed for the Association by local ginners. Crude and inexact, these methods led to interminable disputes with the membership, and to grave difficulties with the buyers. In fact this failure to properly class its cotton caused the severest internal

[3] The fact that the former charge has been reduced over 50%, and the latter over 90% during the last five years indicates the gross inefficiency of the methods of this first year of operation.

dissension the Association has had to face during its entire existence. Only by heroic efforts were the Board and officials able to prevent the complete disruption of the organization. Mr. Orr worked furiously for weeks, making two or three speeches a day to groups of disgruntled members. He admitted the mistakes made, but pleaded passionately for loyalty and support until a better technique could be devised. It is not too much to say that the continued existence of the Association after the dismal blunders of that first year is due in large part to the dramatic appeals of Mr. Orr; and to the effective personal work of the Directors in their home districts.[4]

Sales Problems

The sales policy of the Association as originally conceived, was based upon two devices: orderly marketing; and direct sales to mills. These formed the backbone of that body of argument which induced the cotton growers to sign the Association contract. Probably not one of a thousand of these cotton farmers had analysed them and certainly not that many had suspected serious difficulties in putting them into practice.

Members of the Board had talked glibly of the advantages of "orderly marketing," "merchandising," "straightening the road to market," "determining the price at the point of consumption rather than at the point of production." They were now faced with the problem of transforming these shibboleths into working contrivances. Just what did orderly marketing involve? How were they to sell direct to mills that had never bought in that way? Should the Board make sales (as was being done by some of the tobacco coöperatives) or should it employ a cotton salesman?

[4] During 1921-22 of the 19,146 members 11,776 delivered 93,802 bales of cotton; during 1922-23 of the 20,680 members only 9,075 actually delivered cotton, and the amount delivered was only 77,706 bales.

The first action taken by the Board was to hire a cotton salesman. Evidently if a technical expert was to be secured he must be drawn from the Trade. The Board had no time for careful selection; and consequently took the first man recommended, Mr. W. L. Trout. He had been in the cotton business about fifteen years, and came to the Association with excellent recommendations. The fact that his election was apparently a mistake, and that he had to be eliminated very shortly, was just another unfortunate result of the necessity for immediate and unconsidered action.

The Board was forced to deviate from a literal interpretation of the phrase, orderly marketing, as employed in the campaign. Many members had understood it to mean that the Association would sell a definite percentage of its cotton each month. This was impossible for two reasons: first, there was no method of determining how much cotton would be delivered, until the very end of the fiscal year; and second, it was not always possible to find buyers for exact amounts and types. However, the Board did interpret the phrase to mean regular marketing throughout the fiscal year, and worked consistently to that end. In this position it was fortified by the policy of the United States Government: the War Finance Corporation predicated its loans on a strict adherence to it. The record or sales, given in Table XVIII, Chapter VIII, page 217, shows how it was applied.

In initiating the policy of direct sales to spinners the Association was not so successful. In fact during that first year the Board found it quite impossible to make direct sales. For a hundred years the English mills had bought their stocks from large importers at or near the mill-towns. The American mills had followed a similar practice. The whole Cotton Trade had slowly developed its intricate devices on this basis. Furthermore, the importers and spinners had been accustomed to buying on

buyers call.[5] The Association was practically prohibited from selling on those terms by its inability to hedge its sales.[6]

Association cotton was scattered all over Texas. No merchant was willing to buy this cotton on description, as the grading and classing service of the Association was under grave suspicion. Consequently the Board found it necessary to make all sales on actual samples, and usually in small lots to local buyers. Table XI gives all sales made by the Association between September 1, 1921, and May 1, 1922.

It would be extremely difficult to evaluate the sales experiences of this year. The Association had proved its

[5] When cotton is sold on buyers' call the basis is fixed, or agreed upon by buyer and seller, but the base price, or cents-price, is not fixed immediately. For instance: A Liverpool merchant buys 500 bales of Strict Low Middling 15/16–1″ cotton on August 15, from a Houston merchant. This cotton is to be delivered between August 15, and December 1. The purchase price is to be 50 points off New York, February; in other words, 50 points less than futures contracts on the New York Exchange for the following February. The price thus becomes a contingent price, depending upon the movement of February futures on the New York Exchange. If on August 15, February futures are quoted at 18 cents, the buyer can "call" the price as of that date, in which case his cotton will cost him 17.5 cents per pound. On the other hand he may postpone calling to any date up to December 1. If February futures are declining, or if his own commitments make it advisable, he will postpone. Suppose February futures have declined to 17 cents by October 15 (or the Liverpool merchant has sold the 500 bales to a Lancashire spinner) he will call as of that date. This will fix the price which he is to pay the Houston exporter at 16.5 cents.

Under such terms of sale it becomes imperative on the seller to hedge his sales against the February market, unless he wishes to assume all the risks of probable price changes during the period from August 15 to December 1.

[6] The Texas Coöperative Marketing Act limits the operations of such associations to the handling of products delivered by its members. This apparently prohibits the Association from operating on futures exchanges. No judicial interpretation of this provision of the statute has been made; but there seems to be no question of its meaning.

TABLE XI

Sales from September 1, 1921 to May 1, 1922, Including the Names of the Purchasers and the Number of Bales Bought by Each

To Whom Sold	No. Bales
Geo. H. McFadden Bros.	1,500
W. L. & C. L. Penn	500
Anderson Clayton & Co.	1,500
R. L. Dixon & Bros.	7,872
Morimura & Co.	200
Ray Hubbard and Co.	550
American Italian Commercial Corp.	7,140
W. R. Grace & Co.	500
Harris Irby and Vose	11,843
Southern Products Co.	8,500
T. N. King & Co.	200
Finburg and Co.	187
Glover Wood and Co.	46
W. M. Hannay and Co.	11,650
Salisbury Cotton Mills	75
C. F. Witherspoon Co.	200
Weil Brothers	1,500
Spindler and Co.	400
Fisher Cotton Co.	77
Fisher Aron and Patterson	1,200
Mason Smith	50
Major Clever and Co.	550
W. A. Lightner and Co.	100
Hooper and Bufington	625
W. F. McCoy	650
Charles Starrow and Co.	500
Clark Thread Co.	12
C. E. Kenworthy and Co. Ltd.	2,000
Latham, Bradshaw and Co.	200
William Paggen and Co.	2,300
M. Levi and Sons	200
Grosvnor and Grosvnor	200
Bell Shaw and Co.	250
Logan and Co.	800
Riverside Mills	50
Norman Mayer Co.	200
George H. McFadden and Co.	1,000
T. N. King	100
R. L. Dixson and Brothers	2,825
Major Clever and Co.	350
W. F. McCoy	100
Hooper and Bufington	50
Greer and Greer	230
Anderson Clayton	145
Reynolds and White	49
W. M. Haney and Co.	5,398
Weatherford and Crump	424 (round bales)
Bell Shaw and Co.	250
Glover Wood and Co.	374
Harris, Irby and Vose	100
Neil P. Anderson	50
Charles Starrow and Co.	200

ability to market the cotton of its members in a fairly regular stream. Since the price advanced slowly during the entire season this policy undoubtedly resulted in a higher average price than was secured by the non-member cotton growers. How much, if any, of this general advance in prices was due to withholding stocks from the market by this and the other state associations, it would be impossible to estimate.

Legal Problem

During this first year the Board made no attempt to employ the various legal sanctions provided by the contract for enforcing deliveries. Of the 19,146 farmers who signed the contract before harvesting began, only 11,776 shipped cotton to the Association. Of the estimated sign-up of approximately 600,000 bales, only 93,802 were actually delivered.[7] The Board chose to ignore these evident contract violations. However, their decision to do so can hardly be criticized since the problems incident to handling and marketing the 93,802 bales all but wrecked the organization. Any attempt to enforce delivery or recover damages from seven or eight thousand recalcitrant members would have given the official staff a task quite beyond its power.

The first year was full of bitter disappointments for the more optimistic Association leaders. Instead of the widely heralded "Million Bale Pool," less than a hundred thousand bales actually arrived. Only slightly over half the members had risked any of their cotton in the new venture, and those had delivered less than a third of their indicated production.

Instead of having the spinners of the world knocking at their doors, they had been forced to peddle their cotton in small lots to local merchants and exporters.

[7] The reason for this failure to secure more deliveries is discussed at length in Chapter VI.

The technical processes involved in cotton marketing had developed unsuspected complications. The Fundamental Principles, and the clever legalistic terminology of the contract had proved surprisingly ineffectual.

However, many of the difficulties, disappointments, and mistakes of this first year were inevitable. The task undertaken was stupendous. In its essentials it was new. Waste motion and blunders were unavoidable.

Any valid estimate of this first year's work would involve considerations reaching far beyond that year. Only by costly trial and error could the body of business policies and devices be developed. Most of the flagrant mistakes were never repeated. It would be just to say that on the whole the subsequent life of the Association has fully justified the costs of the formative period.

PART II

CHAPTER VI

FIELD SERVICE, AND MEMBERSHIP PROBLEMS

THE most curious and in many respects the most surprising phenomenon in the functional development of the Texas Farm Bureau Cotton Association is the vast expansion of its field service. No clear-cut definition of field service is available, but, in general, it is that group of activities concerned with procuring new members, maintaining a satisfied membership, and securing deliveries of cotton.[1]

To the Danish farmer, from whom we presumably borrowed most of our coöperative devices, the very concept of field service is alien. It is impossible to make him comprehend that it is necessary to employ the most elaborate, and most expensive, machinery of our associations in securing deliveries from our own members. And yet, that is the situation.

The solution of the enigma is not difficult. This Association is a business concern. It covers a vast territory; and counts its members in tens of thousands. Its annual turnover runs far into eight figures. Like all large scale industries in a highly competitive field, operating under diminishing costs, it faces the stern necessity of constantly increasing its scale of operations.

This can be done in only one of two ways: (1) by inducing a larger percentage of its present membership

[1] The name is also applied to the personnel employed by the Association in performing these functions.

to deliver cotton; or (2) by increasing its membership. Both are less easy of realization than is apparent. The extreme difficulty experienced by the organizers in securing the minimum sign-up in 1921 indicates the complexity of the second: the experience of the Association during the past six years has proved the first to be even more formidable.

The basic machinery of the Association was devised by a lawyer. It has taken on the curiously legalistic pattern of the complex modern business forms. Loyalty, service, group solidarity, the coöperative spirit, are vital forces—more potent, probably, than many of the coöperative leaders imagine. But the membership is widely scattered. The racial, socio-economic, and cultural inheritance of the rank and file are heterogeneous. The Association, to many of them, is a very distant and shadowy sort of thing. Some form of legal sanction is necessary in order to maintain a steady flow of deliveries from any large percentage of these members. So the *modus vivendi* smacks of contracts, and laws, and court decisions, and decrees, and liquidated damages.

This means that the Association requires a vast and intricate chain of agencies for the day by day securing of deliveries; as well as for procuring evidence and witnesses in case the legal department attempts to enforce delivery from an obdurate contract breaker. All this is work for the field service department.

Each new function assumed by the Association means an additional demand on the field service. For instance, when production credit loans are to be made to members some agency must make the proper contacts, investigate collateral and credit risks, observe the uses to which the funds are put, and see that the loans are liquidated. This is work for the field service.

The certified seed program, membership group insurance, coöperative buying of fertilizers and insect poisons,

and the coöperative gin program has each in turn added its complex and difficult membership contact problems to the work of the field service.

In consequence, we find the field service assuming constantly larger proportions among the departments of the overhead organization. The following table showing the annual cost of each of these departments gives striking evidence of the growing significance of field service. Every other department has steadily reduced its per bale costs of operations. In some cases, as for instance Finance, this reduction has been remarkable. On the other hand, the costs of field service have mounted consistently until today they are almost seven times as high as during the first year of operation, and absorb approximately 30 per cent of the total cost of the overhead organization.

TABLE XII

PER BALE COSTS OF CERTAIN OVERHEAD DEPARTMENTS OF THE ASSOCIATION 1921 TO 1927 [2]

Season	Executive Dept.	Directors Dept.	Finance Dept.	Sales Dept.	Field Service Dept.	Total per Bale (net)	Total (net)
1921-22	13.193¢	17.930¢	65.635¢	13.981¢	11.435¢	$3.160	$296,261.00
1922-23	24.595¢	21.570¢	11.913¢	23.213¢	32.614¢	$3.589	$278,946.51
1923-24	10.650¢	10.076¢	7.366¢	17.822¢	37.160¢	$2.251	$410,400.60
1924-25	8.887¢	7.267¢	3.903¢	8.739¢	43.180¢	$1.992	$566,233.86
1925-26	3.541¢	4.860¢	3.586¢	10.935¢	33.756¢	$2.027	$495,265.15
1926-27	4.832¢	5.249¢	4.428¢	14.762¢	77.644¢	$2.655	$528,034.42

The first undertaking of the field service was to conduct the organization campaign in 1921. The men who directed this campaign had had little or no previous experience with this particular type of problem. There were few available precedents to guide them. The field workers, on the whole, were inexperienced. Many of

[2] These five departments are used for purposes of comparison because they are the only ones in which accounting practices have remained fairly uniform throughout the period.

them were ignorant. Some were actually dishonest. Consequently, the performance of the task was both slovenly and inefficient.[3]

During 1921-1922 the field service was practically dormant. No attempt was made to enforce delivery from unwilling members by means of the legal sanctions provided in the Contract. Little effort was made even to persuade members to deliver. No effort was made to secure additional members. The whole energy of the new organization was expended in meeting and solving the prodigious problems involved in handling the ninety-three thousand bales of cotton voluntarily delivered. The Association did not enter into any of those subsidiary lines of activity which were to add so many complex and varied functions to the field service during the next five years.

During 1923 the field service was rejuvenated and completely reorganized. The Association officials had learned that contracts and deliveries are only remotely related. During the first year of operation only 61.5 per cent of the members had delivered cotton, and they had delivered only approximately 20 per cent of the estimated baleage under contract. During the second year these precentages dwindled to 43.8 and 15, respectively.[4]

To the revived field service were allotted three tasks: (1) to use every effort to induce the members to fulfill their contracts; (2) to discover contract violaters, and if they persisted in their violations, to report them to the legal department and assist in the resulting legal actions; (3) to inaugurate an intensive crusade for new members.

Mr. J. W. L. Hall, who had been the first secretary of the Association, was appointed Field Service Director.

[3] A full description of the organization of this first field service department, its technique, methods of operation, and results is given in Chapter IV.

[4] Some reasons for this unexpected failure of members to fulfill their contracts are discussed in Chapter VIII.

Under him were twelve district supervisors who in turn directed the work of about a hundred field men or contract solicitors. The director and the district supervisors were salaried employees; the field men were on a commission basis. However, the mistakes of the original membership campaign on this matter of commissions were not repeated. A commission of $5.00 was allowed for each new contract secured, but this was not paid until the contract signer began shipping cotton. This had a twofold result: (1) it practically eliminated the temptation to send in fraudulent contracts; and (2) it gave the field men a strong incentive to see that their contract signers delivered cotton.

This campaign for new members was sustained for a period of over two years. During that time the membership was increased 250 per cent, and the delivery even more. The high tide of the first contract period shows over fifty thousand members on the books of the Association, and a delivery of 284,322 bales of cotton (1924-25). In securing new members the field service achieved a notable success.

However, during this banner year, 1924-25, only a bare 50 per cent of the members delivered. The next year (the last of the first contract period) this percentage declined to 42.6. It would be impossible to estimate to what degree the field service was responsible for this perennial failure to secure larger deliveries. There are too many subtle and complicated factors entering into the problem to permit segregating any one and measuring it statistically. Some of this failure to secure and hold the loyalty of members was undoubtedly due, however, to ineffectual methods of the field service.

In coöperating with the legal department in prosecuting contract breakers the field service did, on the whole, quite satisfactory work.

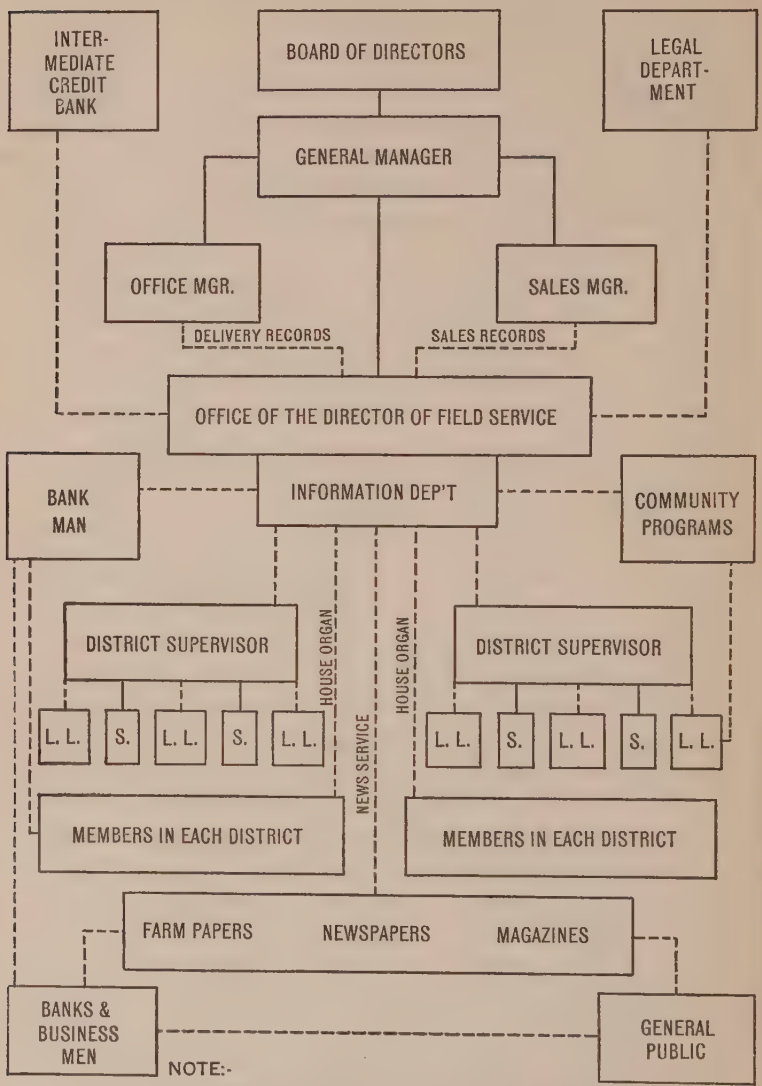
During December 1924 Mr. L. F. McKay, Director of

Field Service and Public Relations of the American Cotton Growers Exchange, called a meeting of field service directors of the twelve state associations which compose the Exchange. Each of these men made a concise report of the field service plan and procedure in his association. This mass of detailed information on methods, devices, and policies was carefully analyzed. Such details as the following were studied: How to recruit an adequate corps of field men; how these men should be remunerated for their services; how the overhead structure should be planned; the constituents of an efficient publicity bureau; how to secure a larger percentage delivery from members; the most effective devices for reaching and influencing business men, bankers and the general public; and how to maintain the proper contacts and mutual coöperation between the three basic departments of the Association, namely field service, office management, and sales management.

Out of this discussion was developed a standard field service plan which has been adopted, with some minor alterations, by all the state associations. The following diagram gives a graphic picture of the organization contemplated by this standard plan.

In the spring of 1925 the field service department of the Texas Association was again reorganized. A modified form of the standard plan was used as a framework. Mr. M. E. Hays, who had held several important positions with the Association, was placed in charge of the departments as Field Service Director. The State was then divided into four districts (reduced to three in 1927), and a salaried district supervisor was assigned to each. Today each of these supervisors directs the work of eight or ten salaried field service men. The Association also employs about a score of sub-solicitors who are paid on a commission basis. These men are usually employed only during the delivery period, in counties or districts where the

STANDARD FIELD SERVICE PLAN



NOTE:-

There should be at least one district supervisor to each 2,000 members and one local leader for each 10 members.

Association does not have sufficient business to warrant the use of a full-time field service representative.

The publicity bureau was continued as a separate department; but for all practical purposes it has become a very efficient and integral part of the field service.

For the past three years the field service has continued to function with only minor changes in its basic plan of organization. The Association now has a well-defined, logical, and effective field service program, the continuity of which is not threatened by every cross current of opinion that develops in coöperative circles.

This new field service organization was immediately charged with that most formidable task—the new membership campaign. The contracts of the Association were so drawn that they expired simultaneously at the end of the 1925-26 season. This was a mistake since it threw upon the field service the stupendous task of a new organization campaign, in addition to its already onerous duties.

Several factors made this task more difficult than was anticipated when the original Contract was formulated. In the first place, five years of experience had conclusively demonstrated that a very large proportion of the cotton farmers of Texas were not financially able to deliver their cotton to the Association however much they might approve the coöperative scheme of arrangements. About half of those who had signed the original Contract never delivered cotton. These non-delivering members were a constant expense and annoyance, as well as a fertile source of friction between the Association and its loyal members. It was difficult to explain to them why persistent contract breakers were not punished. Failure to do this made it hard to secure full and complete delivery even from loyal members. The last year of the first contract period showed the smallest proportional delivery of the whole five-year period.

In the second place, the re-sign-up campaign unfortunately came at the end of the worst year in Association history from the standpoint of prices secured. This was due to the fact that cotton prices declined steadily during the latter part of the season, while the Association still had on hand a large part of its cotton. During the three previous years the Association had probably returned to its members a handsome margin over street prices. However, much of this was forgotten in the dissatisfaction of one bad year.

A third adverse factor was the disaffection of many members when their over-sanguine expectations failed to materialize. Numbers of cotton farmers who had signed the first contract confidently expected the Association to assume a dominant position in the Trade, and to wield a powerful influence in making prices. Five years had taught them the futility of their dream. They began to understand that the old order was not to be swept aside by a gesture.

In addition to these factors, affecting the attitude of members throughout the entire State, there were others which exerted a profound influence in more restricted areas. The members in Southwest Texas had begun to feel that the system of annual pools was resulting in discrimination against them. They delivered their cotton in July and August. At that time they secured an advance of approximately half its market value. But they were compelled to wait almost twelve months for final settlement. On the other hand, members in the Panhandle made deliveries five, six, or even seven months later and secured their final settlements in a correspondingly shorter time.

This situation does not seem to have been much resented by the southern members during those years in which the price of cotton was advancing. But during 1925, 1926 and 1927, when the price declined during the

marketing season, the situation became acute. The Gulf-coast member saw his 18¢ cotton (July price) pooled with the 12¢ cotton of the Panhandle member with the result that each got 15 cents. No amount of persuasion could make him see the logic of that. And, unfortunately, that situation arose first in the very year of the re-sign-up campaign.[5] This added one more handicap to the work of the field service.

To complete the count of adverse factors one would have to list a legion of minor grievances, both real and imaginary, which influenced individuals or small groups. In its pure-seed program the Association had distributed some seed that were spoiled. The members who planted these, and consequently had to replant late in the season or cultivate an inadequate stand of cotton, were sorely disgruntled. Some members were displeased with the grades of their cotton, as classed by the Association; and some with their weight sheets. Inevitably, some mistakes were made in members' accounts. A few dozen members had been prosecuted by the Association for contract violations. Each of these became a little core of resentment and antagonism. In some communities there were members, occasionally influential ones, who vainly aspired to official positions in the Association. These political malcontents were often sources of considerable annoyance to the field service. In all sections of the State there were members who found the tardy final settlements a cause for discontent. A considerable number had confidently expected the production credit program to provide them with ample and cheap funds. Inevitably, most of them were disappointed, since few could offer collateral acceptable to the Intermediate Credits Bank. Each of these groups harbored a certain

[5] Manifestly, the reverse situation presents itself during a year of steady advance in prices. In such years the North Texas members become dissatisfied.

resentment toward the Association, and each in its degree hampered the work of the field service.

The tally would not be complete without a mention of the not inconsiderable number of farmers who are perennial "joiners," who had now grown tired of this organization, and were ready for another.

In the sum these malcontents probably numbered several thousand.

The field service organization was cognizant of all these handicaps, and did not underestimate their significance. On the other hand, the favorable factors in the situation were well known, and careful plans for utilizing them effectively were formulated. In the first place, four years of experience had developed some excellent field men.

Second, and most important, the Association had a fine corps of loyal members, numbering apparently about ten thousand. Many of these members were enthusiastic in their allegiance, and could be depended upon to influence other thousands in favor of the Association.

Third, the Association had indicated a creditable ability to handle the multifarious and intricate problems with which it had to deal. Its legal and economic status were well defined. Its body of policies and practices was taking definite form. Its devices for reaching and influencing the farmers were constantly improving. Practically every cotton farmer in the State knew something of its plans and purposes. It was slowly building a new psychology. It had become an established institution.

Fourth, an excellent plan had been formulated by the field service and the Board of Directors for the re-sign-up campaign. This plan in at least two essentials, differed from the one under which the original membership campaign of 1921 was conducted. First, there was to be nothing resembling a professionally conducted, high pressure,

whirlwind campaign. Only the regular staff of the field service was to be used in the personal contact work. Only the official staff of the Association and the members of the Board of Directors were to be employed in the capacity of speakers. Much of the educational work was to be carried on through local Federation organizations, where these existed, and through group leaders.[6] No minimum sign-up was designated as a goal; and no definite time limit was set for the termination of the campaign. In fact, to speak of it as a campaign is scarcely accurate. It was more in the nature of a permanent program under which the procuring of new members would become one of the routine tasks of field service.

Second, the plan contemplated a careful selection of members. The first contract period had demonstrated that a member who could not, or would not, deliver cotton to the Association was an actual liability. Association news agencies might point with pride to huge membership totals, but the backbone of the organization was the thirty or forty per cent who could be confidently counted upon to deliver their cotton every year. The ten thousand contract signers who had never made deliveries, and the still large number of in-and-outers who were always awaiting an opportunity to take advantage of a favorable, or unfavorable, trend in the market to profit at the expense of the loyal members, were becoming a menace to the Association.

Consequently, the first work for the field service was to check the contract files of the Association and eliminate from consideration all persistent contract breakers.

[6] The Association maintains one group leader for each ten members. This group leader receives a monthly letter from the President which gives him a brief account of the activities of the Association during the previous month. He is usually the most influential member of the community, and is presumably the direct connecting link between his group of ten and Association headquarters.

Next an attempt was made to list, in every community, those farmers whose financial condition allowed them to control the sale of their cotton, and whose general reputation would make them an asset to the Association. This work was not done with any nice degree of accuracy. Nor was it expected to lay the foundation for an Association composed exclusively of wealthy cotton farmers. The idea was to avoid the mistakes of the first membership campaign; to secure the minimum of dead timber, and the maximum of financially and morally responsible farmers who could and would fulfill their contracts.

Three other selective devices were employed: (1) no contract would be accepted by the Association unless it was approved by a district supervisor, and a group leader; (2) no commissions would be paid to the contract solicitor until the member began delivering cotton; and (3) these commissions were determined (within limits) by the number of bales delivered by the member. All three of these had the desired result of concentrating the attention and efforts of the field men on these "approved prospects."

For two years the field service has been operating along the general lines of this plan. No final conclusions concerning its effects can be made. Certain significant trends have begun to show themselves, however. Most noticeable, to the casual observer, the membership of the Association, at the end of its second year of operation under the new contract, is only thirty per cent as large as at the end of the first contract period.

But this is only one side of the case. In 1925-26, of a total of approximately 56,000 members, only 21,391, or 38%, delivered cotton. In 1926-27 13,248, or 84% of the 15,720 members made deliveries.

Not only did over twice as large a percentage of the total membership make deliveries, but the average

amount delivered per member increased 31%. The per member deliveries of this first year of the new contract were almost exactly twice as great as those of the first year of the old contract.[7]

Undoubtedly, some of this increase in amount of deliveries per member, and this striking decrease in percentage of non-delivering members are attributable to a steady improvement in the technique for procuring deliveries. But it also indicates marked changes in the type of membership. The selective devices are showing unmistakable results.

The new contract (revised in July, 1927) is of the so-called stagger type. Each contract runs for a full five-year period from date of signature. This will eliminate the necessity of re-signing periodically the entire membership. It gives the Association itself, as well as the field service department, a more sound and intelligent basis. The re-signing of old members, and the procuring of new ones, now becomes an integral part of routine field service work. The whole problem of convincing farmers that they should coöperate in this particular way is being somewhat removed from the emotional field and is being put on a rational basis. The tumult and the shouting are giving way to the prosaic but effective work of trained recruiting sergeants. A permanent field service personnel is being developed with an excellent *esprit de corps*. This could never have been

[7] The percentage of members (as of January 1, each year) making deliveries, and the average number of bales delivered per member.

Year	Percentage Making Deliveries	Average No. of Bales per Member
1921-22	61.5%	7.96
1922-23	43.8%	8.56
1923-24	53.7%	10.67
1924-25	50.7%	11.36
1925-26	42.6%	11.42
1926-27	84.2%	15.01

done under the original plan of organization. Under that plan the field service would have been compelled to recruit a huge force of untrained and ineffectual field men for an intensive campaign every four years. The only alternative would have been to carry permanently the wholly unjustifiable expense of this unwieldy organization, in order to have a trained corps for the periodic emergency.

The procuring of new members (or "new business" as it is now called by field service) is still going forward steadily. During the delivery months of this year (1927-28) approximately three hundred contracts per month have been signed. If the information given by the signers, and vouched for by group leaders, is credible the average production of these new members is approximately thirty bales. This would augur a marked increase in per member deliveries.

However, this "new business" activity is only one of some seven functions now being performed by the field service. During harvesting season its major operations center around the problem of securing deliveries. Each regular field man is charged with the duty of procuring deliveries from every member in his district.[8] In addition, the Association during the past season employed about twenty special agents [9] who worked on a commission basis.[10] These agents, as well as the regular field men, aid the members in properly tagging their cotton, checking their weight sheets and bills of lading, drawing and cashing their drafts, and in directing these various documents through their proper channels. A number of

[8] The field men are now required to report on every non-shipping member, giving a definite reason in each case for his failure to fulfill the contract.

[9] The Field Service Director reported to the Board in January, 1928, that only two of these special agents had proved notably efficient, while four others had been of some slight value to the Association.

[10] The regular commission paid is 50¢ per bale.

banks in the State are paid the same commission for performing this service.

During 1926-27 the cost of procuring deliveries amounted to 35.5 cents per bale, or 43 per cent of the total field service budget. This would appear to be excessive; but it is difficult to see how it can be reduced without affecting deliveries. Certainly no more vital problem than that of increasing deliveries faces the Association today.

A third activity has devolved upon the field service through the certified seed program.[11] Every phase of this program, except the actual contracts with seed producers, is entrusted to the field service. Field men arouse local interest in the program, take the individual members' order for seed, draw up the necessary assignment notes for the Association to cover the amount of the order, and see that the seed are delivered. It is impossible to estimate the cost of this work and that of the following three items since they are done by field men on a straight salary basis.

A fourth function is performed by the field service in carrying out the membership-credit program. This program contemplates three kinds of credit for members: (1) credit in emergency cases where the initial payment is not sufficient to meet the pressing needs of a member; (2) credit to make possible the delivery of cotton under mortgage; and (3) credit for production purposes.[12] This credit is handled through a subsidiary corporation, which employs its own staff for passing on the adequacy of collateral offered, and, in cases of large loans, for making a personal survey. But, the field men are the normal contact agency between the member desiring funds and the Credit Corporation. They investigate every prospec-

[11] See Chapter VIII.

[12] A description of the operations of this corporation is contained in Chapter VII.

tive borrower, and make a detailed report to the corporation. Most loans made by the corporation are extended on the basis of these reports. It later becomes the duty of these field men to see that the member delivers cotton to the Association to liquidate these loans.

The field service is also employed in handling the life insurance program instigated by the Service Corporation—a subsidiary of the Farm Bureau. The work in this field has not met with much response, only a few hundred members having taken advantage of the opportunity offered to take out insurance under the group plan.

A sixth task performed by the field service is the contact work of the Gin Corporation. This subsidiary of the Association has begun to establish coöperative gins wherever the local membership so desires, and the local cotton production warrants. The field service representatives hold community meetings, whenever they are requested by Association members, and canvas the situation. If an Association gin is warranted, a representative of the Gin Corporation assumes charge of the project. The field men are further employed in getting the members to buy stock in the gin company, and to use the facilities thus afforded. During the harvesting period last year (1927) sixteen coöperative gins were created in this way.

Finally, the field service has undertaken the general task of educating the farmers of the State in the principles and practices of coöperative marketing. This work naturally begins with Association members. The field service is the contact division. It acts as the interpreter of the Association to the members, and as the spokesman of the members to the Association. Each field service representative attends, on an average, four local membership meetings every month. Here he is called upon to give all sorts of information concerning the activities of the Association. Information on how to use shipping tags, ship cotton, make out bills of lading, and on in-

numerable other minor matters is demanded; as well as information and opinions on the basic problems of the Association and of the larger aspects of the whole coöperative movement. Practically every group leader is visited each month, and the problems of his group are discussed.

In addition to this informational and educational work with the membership, the field service is doing creditable work in educating other farmers and business men of the State concerning the plans and practices of the Association. This work is carried out by means of frequent general meetings, newspaper articles, public addresses, field service bulletins, and an excellent house organ.[13]

During the past year, 1927-28, several important innovations affecting the work of the field service have been introduced. The final settlement of 1927 was personally distributed by field men. Membership meetings were held in every community and the final statements and checks covering the balance due each member were distributed. This device had several valuable results. The field men were given an opportunity to explain the statements to a large number of members at one time. All mistakes or misunderstandings were taken up immediately, thus ob-

[13] One of the most unique of these educational devices is the "Texas Farm Woman's Special." Last year the field service sponsored an educational tour for farm women, through the Mountain and Pacific Coast states. Thirty outstanding rural leaders were given an opportunity to study at close range the economic and social effects of coöperation in the far west. The results are interesting, and surprisingly comprehensive. Each of the women was asked to write her impression of rural life in the states visited, and her appraisal of the various factors influencing it. These documents were condensed and published in a special edition of the Farm Bureau News, which was sent to over fifty thousand Texas farmers. During the summer short course for farmers, of the Texas Agricultural & Mechanical College, these women were again given an opportunity to tell the story of "standardization, organization, and coöperation" in the west. Later, in rural meetings all over the State, the same story was repeated to thousands of farmers and their wives. It would be difficult to evaluate the ultimate effects of this novel educational venture.

viating a flood of correspondence for the central office, and innumerable personal calls by field men. It also obviated many causes for discontent and dissatisfaction. Probably most of the members had never before had the accounting methods of the Association adequately explained. One of the major causes for defection in the ranks of any such organization lies in this very failure of the central office to make its business methods and devices comprehensible to the rank and file. This innovation seems to have met with unanimous approval, and will become an established custom.

Another innovation of even more significance in the activities of the field service is the provision made, in December 1927, for a method of financing informal county organizations. The Association Agreement made provision for these county or community locals. But no method of financing them was suggested. There have always been differences of opinion among Association officials as to the advisability of these locals. Therefore, no official action was ever taken concerning them. In the meantime, several counties formed locals (usually under the auspices of the Farm Bureau Federation) and financed them through voluntary contributions or local dues. During the re-sign-up campaign some of these locals materially aided the field service. Consequently, during 1927, the whole matter was brought up before the Board for consideration. After discussing it some months, and tentatively accepting several plans, the Board finally adopted a plan for financing the activities of these locals. Under this plan, county units, after they have organized and fulfilled certain requirements (to be specified by the Field Service Director and the General Manager), may apply to the Association for operating funds, not to exceed $2.00 per shipping member in the county. Although the use of these funds is left to the discretion of

the governing board of the local, it is presumed that they will be employed in carrying forward the field service program.

These locals may have far-reaching results both on the field service activities and on the formulation, direction, and control of the policies of the Association.[14] The Field Service Director has declared that the efficiency of his field men was doubled or trebled last year in those counties where strong local organizations were maintained.

Certainly no problem of field service is more vital than that of keeping the members satisfied. This cannot be done unless they are regularly and liberally informed concerning the activities of the Association; and, further, unless they are made to feel a personal and individual interest in, and responsibility for, their Association.[15] In the nature of the case, these are difficult tasks. A vital local should be able to do more along these lines than any other device.

It would be far from conservative to say that the whole problem of membership morale has been solved by the field service of the Texas Association. But great strides have been made. The work of the department is organized on sound and rational lines. The different activities are being properly coördinated. Its educational work has made notable progress, but is still capable of much further expansion. The personnel is steadily improving. New devices are being tested in the field, and the management has shown itself ready to adopt any that

[14] See Chapter X.

[15] The United States Department of Agriculture, through its Bureau of Agricultural Economics, has made an excellent analysis of membership problems in four associations of this character. The conclusions derived indicate that the most trenchant work of a field service department is "keeping members fully informed and making them feel that they are a definite part of the organization."—United States Department of Agriculture, Department Circular, number 407, page 14.

are effective. The per bale cost of field service is still mounting; but in view of the constant expansion of functions, this is not surprising. On the whole, these functions are being performed very creditably, and as economically as seems possible under present conditions.

CHAPTER VII

FINANCIAL PROBLEMS

THE most dramatic operations of the Association are those involving its financial activities. This is but natural. To cotton farmers, counting money in the millions is dramatic. Furthermore, in this phase of its activities the Association has cause indeed to point with pride. Here its most effective work has been, and is being done.

The financial operations of the Association fall into three categories: (1) financing the activities of the overhead organization; (2) financing the marketing activities; and (3) financing the membership. Each of these has presented its own peculiar problems. Each has required the adaptation or creation of its own devices, and methods of procedure.

The first problem to arise was that of financing the original organization campaign. It also came dangerously near being the last. Apparently the organizers grossly underestimated the cost of that campaign. According to previous agreement the Texas Farm Bureau Federation was to supply campaign funds to the amount of one dollar per member secured. Membership fees were expected to meet any further requirements for campaign expenditures.

The campaign proved far more expensive than had been anticipated. The funds provided by the Federation were wholly inadequate; and no appreciable amount was forthcoming from membership dues. A large percentage

of the contract signers were already members of the Federation, and consequently did not have to pay membership fees. All others, in lieu of cash payments, were permitted to join "on credit." In such case a written order was attached to the contract instructing the Association to withhold the proper amount out of the proceeds of the first cotton delivered by the member. While this was undoubtedly an effective device for getting members, it did eliminate any possibility of collecting cash fees. Few farmers cared to invest ten actual dollars in an embryonic organization which might never materialize.

As the campaign progressed the need for funds became critical. In this emergency four members of the Federation staff borrowed thirty thousand dollars from a Dallas bank on their own personal security.[1] No act in Association history indicates a more profound faith, on the part of the leaders of the movement, in the institution they were creating. It is not too much to say that this alone made possible the successful conclusion of the organization campaign. These notes were later assumed by the Association and with all other expenses of organization amortized over a five-year period.[2]

Two basic problems involved in financing the activities of the overhead organization have appeared. The first involves providing permanent capital assets such as office buildings, office equipment, and other necessary machinery. The second involves providing funds for operating expenses such as salaries, commissions, sales expenses, and all the other multifarious running expenses of a large organization.

The first is amply provided through the 1% Reserve Fund. This fund accumulated over a million dollars

[1] Mr. John T. Orr; Mr. C. O. Moser; Mr. Walton Peteet; and Mr. J. W. L. Hall.

[2] The amount of these debts left over from the organization campaign was $38,084.54.

during the first contract period.[3] The Association has purchased a good, two-story brick office building in Dallas, and has equipped it with the most modern office machinery.

This 1% Reserve Fund has also provided the permanent capital for all the subsidiary corporations created by the Association.[4]

The equitable allocation of overhead costs has been a subject of considerable controversy among coöperative financiers. Practices vary greatly, even among the cotton coöperatives. A theoretically equitable apportionment would prorate on a per bale basis all storage and compressing costs, field service, and most of the general office costs; on a value basis, insurance, classing and selling costs and reserves; and on a specific cost of service basis, freight, and interest on advance payments. General man-

[3] This Reserve Fund has been accumulated as follows:

1921-22	$ 89,004.95
1922-23	$109,975.51
1923-24	$288,668.45
1924-25	$351,675.39
1925-26	$218,119.82
1926-27	$120,227.17
Total for six years	$1,177,671.29
Balance in Reserve at end of five years	$1,056,365.58
Balance in Reserve today	$1,084,692.96

The Reserve accumulated during the first contract period is now being returned to the members who contributed it. The sums deducted during 1921-22 were repaid on July 1, 1927. Those deducted during 1922-23 will be repaid on July 1, 1928. This policy of refunding each year the Reserve accumulated during the corresponding year of the first contract period will be continued. In other words, this Reserve is a five-year revolving fund.

[4] The permanent investments from this fund as of January 1, 1928:

Capital stock of the Finance Corporation	$300,000.00
Capital stock of the Sales Corporation	$200,000.00
Capital stock of the Gin Corporation	$200,000.00
Real estate	$ 50,000.00
Buildings	$125,000.00
Furniture and fixtures	$ 37,822.50

agement costs, and many items of central office expense would have to be prorated according to some arbitrary calculation. But this apportionment is a practical impossibility. The cost of making the necessary calculations and of accounting for every minor item of expense is prohibitive. Consequently, the Association prorates its major costs on this equitable basis, and all others on a per bale basis.

These overhead operating costs have been steadily reduced. The table on page 175 shows these costs for each year from 1921-22 to 1926-27. There are several factors affecting expense of the overhead organization as a whole. One is the amount of cotton handled. Many of the departments would have their costs only slightly increased by a relatively large increase in deliveries. It is not a mere coincidence that the lowest per bale cost of operation occurred in 1924-25, the year of the largest delivery; and the highest occurred in 1922-23, the year of the smallest delivery. If the amount of cotton delivered could be doubled within the next two years, this would probably require an additional overhead expense of only twenty or twenty-five per cent.

Another factor tending to reduce these expenses is the marked betterment in office technique. Accounting devices have been steadily improved. Office forms and records have been greatly simplified. Machinery has displaced much of the hand labor. There are less than fifty employees in the Dallas office at present. During the first two years over three times this number were required for less than half the business now handled.

On the other hand, the constant expansion of functions has tended to increase the overhead costs. Membership credit programs, certified seed distribution, promotion of coöperative gins, and the sale of group insurance policies have all added their quotas to overhead expenses.

TABLE XII

COSTS OF OPERATING THE OVERHEAD DEPARTMENTS OF THE TEXAS FARM BUREAU COTTON ASSOCIATION, 1921–1927

Departments	1921–22		1922–23		1923–24		1924–25		1925–26		1926–27	
	Total Cost	Cost per B/C	Total Cost	Cost per B/C	Total Cost	Cost per B/C	Total Cost	Cost per B/C	Total Cost	Cost per B/C	Total Cost	Cost per B/C
Directors	$ 16,820.24	17.93¢	$ 16,761.54	21.57¢	$ 18,372.41	10.08¢	$ 20,664.33	7.27¢	$ 11,873.68	4.86¢	$ 10,435.83	5.25¢
Executive	12,376.04	13.19	19,112.02	24.60	19,418.33	10.65	23,562.76	8.29	8,651.18	3.54	9,606.87	4.83
General Management			56,869.40	73.19	132,424.87	72.63	181,268.26	63.75	137,262.11	56.18	105,675.05	53.15
Legal			14,943.14	19.23	17,477.51	9.59	19,680.33	6.92	16,187.06	6.63	21,287.33	10.70
Finance	61,571.95	65.63	9,257.26	11.91	13,430.47	7.36	11,097.17	3.90	8,761.79	3.58	8,802.88	4.42
Field Service	10,726.95	11.43	23,343.09	32.61	67,751.20	37.16	122,771.33	43.18	62,723.30	25.67	154,379.62	77.64
Farm Bureau News							31,956.96	11.23	27,526.24	11.26	29,986.48	15.08
Assembling Cotton									4,848.70	1.98	2,575.00	1.29
Houston Office	5,396.02	5.75	12,935.63	16.64	19,171.28	10.51	24,478.71	8.60	23,535.53	9.63	25,603.39	12.87
Classing—Dallas					6,156.43	3.37	7,837.56	2.75	6,336.30	2.59	6,866.93	3.45
Classing—Houston					18,239.28	10.00	26,724.64	9.39	27,354.01	11.19	26,241.92	13.19
Selling	13,115.44	13.98	18,038.32	23.21	32,494.75	17.82	24,848.74	8.73	26,716.23	10.93	29,350.95	14.76
General Office	170,356.52	181.60	118,446.31	152.43	138,173.73	75.78	161,108.01	56.66	220,411.84	90.21	157,362.04	79.14
Boston Office	5,673.71	6.04										
Amortization of Organ. Expense	7,409.09	7.89										
Depreciation of Furniture and Fixtures	1,085.64	1.15										
Deductions	8,270.25	8.81	12,760.20	16.42	72,709.68	39.88	89,764.94	31.57	86,922.82	35.57	60,139.87	30.24
Net Operating Expense	296,261.35	315.81	278,946.51	358.97	410,400.60	225.09	566,233.86	199.15	495,265.15	202.71	528,034.42	265.56

The problem of providing finances for the permanent capital assets of the Association is of secondary importance compared to the problem of providing marketing credit. The former requirements have only amounted to a little over a million dollars during the past six years. The latter have amounted to almost twenty-seven millions in a single year; and have averaged over seventeen millions.[5]

These stupendous credit operations have been necessitated by the merchandising system employed. Practically all Texas cotton farmers must have a large part of their annual income in the fall, in order to meet their maturing obligations. The Association attempts to distribute its sales with some regularity over the entire fiscal year. This forces it to become a gigantic holding agency. Since the farmer-members cannot finance these holding operations the Association must do it for them. The Association has made no attempt to build up sufficient permanent capital to carry this load. It, in turn, must look to the banks, and Government credit agencies for assistance.

The amount of marketing credit required by the Association during any given year is a resultant of three factors: (1) the amount of cotton delivered during the year, and the rapidity with which it is delivered; (2) the amount of the initial advance, and other payments made to members; and (3) the sales operations of the Association.

The funds distributed in initial advances at the begin-

[5] Amount borrowed each year by the Association for market operations:

1921-22	$ 5,931,155.69
1922-23	$10,155,000.00
1923-24	$17,875,500.00
1924-25	$26,179,000.00
1925-26	$26,984,500.00
1926-27	$ 9,700,000.00
1927-28	$24,016,000.00

ning of the season are necessarily all borrowed from the banks and other credit institutions. The cotton delivered is hypothecated in the form of warehouse receipts and bills of lading as collateral for these loans. If the market advances, the amount of cotton necessary to cover these loans is correspondingly reduced. The Association starts selling as soon as delivery begins. The money received for its cotton may be used to liquidate loans; or more cotton may be substituted as collateral for the loans, for that sold, and this money be allowed to accumulate to provide an additional distribution for the members. When sales are made rapidly, these distributions may be rapid and liberal. When sales are made slowly, these distributions must be restricted as to time and amounts. Also, if the price declines sharply, the Association will be forced to use its funds to retire a part of its loans; or it will have to tie up more of its cotton as collateral. Either of these situations will cause distributions to be retarded.

The Association has consistently followed a very cautious policy in making these initial advances, and later distributions. Its first initial advance each year has been calculated on a basis of fifty per cent of the market price of Middling cotton. In no case has it amounted to more than the banks would loan on unclassed cotton.

Despite this cautious policy, the Association has faced grave dangers on three occasions. Any one of these might have meant disaster. The first occurred in 1923-24. The initial advances were begun on a basis of $75 per bale. On August 20, the market began to decline sharply. The Board met the situation squarely by immediately reducing the advance to $60. Fortunately, the market recovered quickly. Within a month the Board was able to announce an increase of $15 per bale in the advance; and on December 15, this was increased by another $25.

The same situation, though on a less serious scale,

arose during the 1925-26 season. In July, the Board announced that the initial advance would be started at $70 per bale. At that time cotton was selling on the New York market at approximately 25 cents per pound, or $125 per bale. The terrible drouth through central and south Texas made the early season market quite bullish. The price advanced $5 per bale during July. In view of these facts the Finance Corporation announced its willingness to loan $15 per bale (raised to $20 on October 1) on cotton delivered.

But the early-season estimates of the 1925 crop proved to be altogether misleading. The United States Department of Agriculture's July estimate of 13,588,000 bales had to be revised again and again, as one of the best autumn growing seasons of fifty years advanced. The final out-turn exceeded 16,100,000 bales.

A steady decline of prices resulted, lasting throughout the entire season. By the middle of October they had reached 22 cents, and by the end of that month they were below 20 cents. The decline continued until the low point of 17.85 cents was reached on July 12.

The Association maintained its initial advance of $70 throughout the season. However, it was not able to make another payment until March 1, when most of its cotton had been sold, and for several months the Association faced the possibility of being forced to sell cotton in order to maintain the margin on its loans.

Again, during the present season (1927-28) the market has declined steadily throughout the delivery months. In addition, the Association has sold its cotton very slowly. The situation is made desperate by the fact that the early season initial advances were quite liberal. The first advances were made on a basis of $50 per bale. During July and August, a spectacular advance occurred in the market. On August 24, the Board increased the initial advance to $80. With the price ranging between 22 cents

and 25 cents that seemed a conservative figure. But within a fortnight the market began its steady recession, which was to continue for nearly four months, and which reduced the equities in cotton by approximately $40 per bale. The Board maintained its position until October 13, and then, tardily, began to reduce its advances. The first reduction brought the advance down to $70. On December 8, another $10 was lopped off; and on February 15, a further reduction of $20 was made, bringing the initial advance down to $40 per bale, the lowest point it has reached since 1921.

This continued decline in the market, coupled with the sluggish sales policy of the Association this year has made it impossible to provide a further distribution to the members. This situation has caused some serious discontent, particularly in south Texas, where a December distribution had been generally expected.

If the market does not advance materially between now (February, 1928) and July, the Association will face a baffling dilemma. Either a large part of its cotton will have to be carried over into the new crop year, to face the quite unpredictable hazards there, or the Association will have to meet the unpleasant necessity of recovering excess advances from many members.[6]

In extenuation of the policy of the Board this year it should be said that, except for the notorious report of the Secretary of Agriculture, very few of the expert analysts of the cotton world foresaw or predicted the decline of prices last winter. In fact, it is very difficult to explain that decline, even after the fact. Possibly several years hence some analyst may be able to explain it satisfactorily by the simple and well-known expedient of ignoring the contradictory evidence in the case.

[6] Since this was written the market has advanced about $15 per bale, and the Association has begun to sell more rapidly. (April 1, 1928.)

The decline in prices, the liberal initial advances during heavy delivery months, and tardy sales have all contributed to create a serious credit situation. For the first time since 1922 the margin of value in the cotton hypothecated for marketing credit is a matter of immediate concern to both the creditor banks and the Board of Directors. The Association has been compelled to augment its collateral several times. The Intermediate Credits Bank has supported the credit structure of the Association to the point of actual danger. Had the market continued its decline another two or three cents, the Association would have been forced to dump its cotton on the market to satisfy its creditors. No more serious danger has ever faced the organization.

The Association employs the established credit devices and customs of the trade in borrowing funds for its marketing operations. In no other phase of its work has it been so fortunate in finding simple and effective methods easily adaptable to its particular requirements.

During its first year the Association experienced tremendous difficulties in procuring adequate credit.[7] A large part of it was advanced on demand notes by local banks at ruinous interest rates. Before the end of this year, however, the War Finance Corporation had entered the field with its unlimited facilities and more liberal terms. All its loans were made payable July 1, the end of the fiscal year. Consequently, some of its notes ran for nine months. The rate of interest was appreciably lower than that charged by local banks, and the collateral required was slightly less. Although this agency supplied less than one-third of the credit requirements of the Association, its influence on the attitude of private credit institutions was almost unlimited. Before the beginning of its second year the Association had made satisfactory agreements with some of the great banking firms

[7] See Chapter V.

of New York. The War Finance Corporation had done its work in one year, and after 1923 ceased to have any significance in the financial life of the Association.

For the past four years the credit structure of the Association has been regulated by annual contracts with a group of Metropolitan credit institutions organized by the Seaboard National Bank and its closely related brokerage house, Goldman Sachs & Company. These contracts provide an almost unlimited line of credit. They not only stipulate in detail the conditions under which this credit is to be extended, but also exert a subtle influence on the entire functional life of the Association.

The credit is extended in the form of sixty- and ninety-day sight drafts, issued by the Association and accepted by members of the Banking Syndicate. These acceptances are sold in the open discount market. The market for such acceptances was vitally influenced by the Agricultural Credits Act of 1923. This Act provides that bankers acceptances drawn by coöperative marketing associations for agricultural purposes and secured by warehouse, terminal or other similar receipts, covering title to readily marketable staples and having a maturity not to exceed six months, are eligible for rediscount or may be purchased in the open market by Federal Reserve Banks.

The security against which these acceptances are drawn satisfies all requirements of the Federal Reserve Banks. It appears in the form of negotiable warehouse receipts on cotton. This cotton is carefully graded, classed, and insured and stored in an independent AAA warehouse under the supervision of a trustee appointed by the accepting Banking Syndicate. Only such grades as are tenderable against futures contracts on the New York Cotton Exchange can be hypothecated.

The margin required by the syndicate contract varies with the price of cotton. When Middling cotton is selling on the Houston spot market at 20 cents per pound or

less, the margin required is 30 per cent. In other words, drafts may be issued to 70 per cent of the Houston price or to a maximum of 14 cents per pound when cotton is selling at 20 cents. When the price moves above 20 cents per pound the required percentage of margin increases. With each increase in price of 1 cent per pound the Association may increase its drafts by .2 cents, up to a maximum of 15 cents per pound. This means that with cotton selling at 21 cents these drafts may be issued to 14.2 cents per pound; at 22 cents to 14.4; at 23 cents to 14.6 cents; at 24 cents to 14.8 cents; and at 25 cents to 15 cents per pound. No increase is permitted above this point, regardless of any further increase in prices. At this point the margin required is 40 per cent; or, the Association may borrow 60 per cent of the market value of its cotton.

These contracts include two provisions which exert a potent influence on the sales policy of the Association. First, the amount of outstanding acceptances is arranged in a way to force progressive sales. Up to February 1, the maximum amount, usually $10,000,000, may be outstanding. During the period between that date and May 1, the amount must not exceed $7,000,000, and must be reduced to $3,000,000 by the latter date. Between May 1, and July 1, this $3,000,000 maximum must not be exceeded; and all loans must be liquidated by July 1.

Second, the contracts contain specific provision for additional sales during the early part of the season if, "in the judgment of the group managers, the market conditions at the time should make such sales advisable." [8]

These contracts with the Seaboard National Bank Syndicate have proved so satisfactory that the Association renews them annually almost as a matter of routine business. They are the keystone of its credit structure. They provide easy and regular access to the greatest

[8] This provision has never been actively enforced, but it has exerted consistent pressure on the sales program.

credit storehouse in the world, the New York money market.

During the past four years the Association has borrowed $23,301,000 from the Seaboard Syndicate at an average interest rate of 5.13 per cent.[9]

The excellent credit rating of the Association, and the confidence inspired by its business policies, are evidenced by a statement from Mr. Henry S. Bowers, member of the Board of Directors of the Seaboard National Bank, and a member of Goldman Sachs & Company.

"The Texas Farm Bureau Cotton Association is handling affairs of its members in a manner that is due the greatest praise, and because of the efficient and business-like manner in which all phases of the work are handled, it is no wonder that banking interests throughout the country are anxious to lend it the millions of dollars necessary to cover the financing.

"I am not only pleased—but amazed, at the manner in which the cotton is handled from the member in the interior through the grading and classing, foreign shipments to spinners direct, and the subsequent periodical and final reimbursements to the membership.

"But of additional and particular importance to every one, and more so perhaps to our institutions, is the absolute respect of the management to the principles of coöperative marketing. An investigation shows that the Association is following these principles to the letter and is, in no ways, a holding or speculative organization.

[9] Amount borrowed each year, and average rate of interest.

	Amount	Rate of Interest
1924-25	$3,301,000	5.01 per cent
1925-26	$5,150,000	5.27 per cent
1926-27	$3,000,000	5.64 per cent
1927-28	$6,850,000	4.96 per cent

In calculating the average rates of interest on these loans, syndicate expenses, commissions, fees, and miscellaneous expenses have been included.

" . . . It should be of interest to the members that the Texas Farm Bureau Cotton Association is securing its money at the lowest rate of interest secured by any corporation in the United States, regardless of its size, strength, standing, or previous lines of credit extended." [10]

In addition to this credit procured from Eastern banking firms, the Association employs extensive lines of credit provided by Texas banks. The Association, in fact, prefers the local banks whenever they can offer as good terms as the New York institutions. During the past four years a total of $50,653,500 has been borrowed from Texas banks at an average interest rate of 4.92 per cent.[11]

Since its organization in the summer of 1923 the Federal Intermediate Credits Bank, of Houston, has annually loaned large sums to the Association.[12] These loans have amounted to $10,500,000, and have borne a uniform interest rate of 4.5 per cent.[13]

The third major credit problem of the Association is that of financing its individual members. By and large, the cotton crop of Texas is produced on credit. Under the traditional system this credit has been supplied the farmer chiefly by local banks and time merchants. If provided by a bank, the customary form of loan is a three to nine months personal note with a crop lien and

[10] Farm Bureau News, October 10, 1924.

[11] Amount borrowed each year, and average rate of interest.

	Amount	Average Rate of Interest
1924-25	$13,453,000	4.73 per cent
1925-26	$16,334,500	5.00 per cent
1926-27	$ 5,200,000	5.00 per cent
1927-28	$15,666,000	5.00 per cent

[12] These loans to the Association should not be confused with those made to the Texas Cotton Growers Finance Corporation. See page 192.

[13] Amounts borrowed each year.

1924-25	$2,000,000
1925-26	$5,500,000
1926-27	$1,500,000
1927-28	$1,500,000

chattel mortgage as security. If supplied by a merchant, the usual form is book credit for merchandise, and the loan often, though not always, is secured by a crop lien or a chattel mortgage. In either case, the loan matures during cotton-picking season, commonly October first, or November first. Undoubtedly, the holder of a crop mortgage regularly determines when and how the cotton is to be marketed.

During the first three years the Association received only about one fifth of the cotton presumably under contract. Many explanations were offered, but the more intelligent leaders began to appreciate the close relation between crop credit and crop marketing. Orderly marketing was a more complicated process than they had suspected. The problem was vital. Evidently one of two solutions must be attempted if the Association ever expected to market any large part of its members' cotton. First, the banks and time merchants might be induced to permit members to deliver cotton against which they held liens. Failing that, the Association would be forced to supplant these credit agencies as a source of production credit.

The first offered numerous difficulties. Many of these bankers and merchants were cotton buyers; they could scarcely be expected to view with equanimity the loss of a large part, and probably a very lucrative part, of their own cotton business. Those who did not buy cotton themselves were afraid to let that belonging to their debtors get out of sight. Tenant farmers are notoriously poor credit risks. The only way to play the game safely is to force them to sell their cotton and pay their debts as soon as possible. Such an attitude on the part of the bankers and merchants left little room for orderly marketing.

The second solution was even more difficult. These credit agencies were an integral part of the economic

structure. They were not as inefficient as they would appear to the casual observer. Their business technique and credit devices were the result of fifty years' development. The coöperative could not hope to supplant them without a desperate struggle; and a struggle with these powerful groups was what it most wished to avoid. Furthermore, the Association possessed neither the capital nor the technical organization to assure a successful production credit program.

In the end, both solutions were attempted. Strenuous efforts have been made to maintain pleasant relations with country banks and merchants; and to induce them to release their mortgaged cotton to the Association. These efforts have been only partially successful.

In 1927 the Association embarked upon its long-discussed membership credit program. It is significant that this step was taken in order to make it possible for members to deliver their mortgaged cotton.

The Association functions as a provider of member credit through a subsidiary, the Texas Cotton Growers' Finance Corporation. All the capital (originally $200,000; increased to $300,000 July, 1927) is supplied from the 1% Reserve; and all the stock is owned by the Association. No other forms of corporate securities have been issued. Members of the Executive Committee of the Association Board of Directors are designated as stockholders, and annually proceed to formally elect themselves the Board of Directors of the Finance Corporation. This Board performs all the usual functions of a corporate board of directors. The President and the Secretary of the Association are designated President and Secretary of the Corporation. The technical staff includes a general manager, a treasurer, and two or three expert credit men for field work. Most contact work with members is performed by the field service division of the Association. It would be difficult to construct a simpler form of organization.

Three forms of credit are provided by this Corporation: (1) emergency credit against the member's equity in cotton already delivered; (2) credit to relieve mortgaged cotton so that it may be delivered; and (3) production credit. The first, known as C-9 loans, is in answer to the member's demand for more money than the initial advance on his cotton provides. In many cases this demand is urgent. Most farmers find it hard to meet their autumn obligations with only fifty or sixty per cent of the market value of their cotton. If further distributions by the Association are retarded, this difficulty becomes more pronounced. In such cases the Corporation will loan money on the member's equity in cotton already delivered, provided the trend of the market, and the amount of the initial advance, justifies it. If the initial advance has been high relative to the value of the cotton, or if the market price is declining, this equity may be seriously impaired, or even entirely wiped out. The C-9 program of the Corporation is delimited by these two factors. These loans for the past three years have been as follows:

1924-25	$606,222.70
1925-26	548,014.35
1926-27	60,954.08

During 1926-27 the price of cotton declined disastrously; also, the initial advances were more liberal than subsequent events warranted. Consequently, the Corporation was practically forced to desert its C-9 program.

This has been by large odds the most profitable credit business handled by the Finance Corporation, and also the least hazardous. During the past three years the annual carry-over on these loans has been negligible. In 1924-25 it amounted to $71.44; in 1925-26 to $348.41; and in 1926-27 to only $3.51. All of these carry-overs were subsequently liquidated without the loss of a dollar to the Corporation.

The second form of credit extended by the Corporation, known as C-10 loans, is for the purpose of relieving mortgaged cotton. This program was initiated in 1926-27. Thus far it has been severely restricted, amounting to only $31,957.25 last year. These loans are all secured by chattel mortgages as well as by liens against the cotton delivered, but are considered the most hazardous credit undertakings by the Corporation. Last year there was a carry-over of $3,664.11, or 11½ per cent of the total.

This program undoubtedly shows an appreciable loss on the books of the Corporation. But, its chief purpose is to procure the delivery of cotton which otherwise could not come to the Association; and its effectiveness must be measured in terms of how cheaply it performs that task.[14]

The third form of credit provided by the Corporation is crop production loans. This program was launched in 1926-27, and has already become the major activity of the Corporation. During the 1926-27 season $204,597.17 was loaned; and during the current season $471,962.72.

This is the most difficult work of the Corporation both from the standpoint of credit risk involved, and of proper direction of the use of funds provided. Almost every member of the Association requires production credit. Relatively few of them can meet the very stringent requirements of the Finance Corporation. This situation requires tact and shrewd business acumen. The Corporation is a service agency, created and operated for the purpose of assisting the members of the Association. But, a growing cotton crop is a notoriously poor credit hazard. Unless an applicant can pledge chattels to cover a large part of the requested loans, the Corporation must refuse

[14] If the Corporation were paid the customary 50 cents per bale for deliveries, it might show a profit on the program. However, it is impossible to show statistically the profit or loss of any one of these credit programs, since they are all administered by the same staff, and no attempt is made to prorate their joint costs.

him. This inevitably causes dissatisfaction. On the other hand, the Corporation must procure most of its funds from the Intermediate Credits Bank and consequently its loans must meet the meticulous requirements of that institution. This means that the major portion of the requests for production credit loans have to be refused.[15]

Under the most stringent rules and careful administration there will necessarily be a considerable annual carry-over on these loans. Last year it amounted to $35,325.18, or 17 per cent of total loans. It is impossible to gauge the loss that will have to be taken on this; the Corporation estimates that it will be about 10 per cent of the carry-over.

Measured by the standards of a commercial credit agency the Finance Corporation has not been successful. It has operated at a loss for the past two years. Its balance sheet shows an operating deficit of $15,387.65, or $831.76 per month for the eighteen and a half months from February 15, 1926 to August 31, 1927.[16] This makes no provision for any earnings on its $200,000 of capital stock ($300,000 during the last two months of the period), nor any provision for probable losses on its carry-over. If the latter item is included the operating deficit would probably amount to approximately $20,000 for the period.

However, it is hardly fair to compare the Corporation during this period with commercial credit agencies. In the first place, the Corporation was entering a new field. It had to create its credit forms and instruments, and train

[15] One of the cleverest leaders of the whole cotton coöperative movement analysed the situation concisely and accurately when he said "We are now able to provide ample credit to all our members—who don't need it."

[16] This period is taken because the C-10, and the production credit programs were started on February 15, 1926. On that date the books of the Corporation show an operating surplus of $6,039.40 earned on its C-9 program, in a period of less than two years.

its technical staff. Furthermore, it had to educate the field men of the Association in methods of securing credit information, and in the meaning and use of its various kinds of loans. Even more difficult, some of this information had to be conveyed to the membership in understandable form before they could make use of the proffered credit. All of this was slow work, and costly.

Second, the Corporation attempts to serve the whole membership of the Association from one central point. In many counties there are only a scant half-dozen members. The cost of sending a credit man hundreds of miles to investigate a prospective borrower, who may only want a hundred dollar loan, and who may not have the requisite collateral to secure even that, is exorbitant.

Third, the Corporation is essentially a service agency. It was not intended to make profits. Its major purpose is to assist the Association in its program of coöperative marketing. In a large number of cases it has made loans which were known to be unprofitable, in order to serve its function of promoting the work of the parent organization. For instance, it has made loans in amounts as small as $30. These could not possibly pay the costs involved in making the loan. A commercial agency can, and does refuse unprofitable business.

The value of the work done by the Corporation for the Association is an intangible item which cannot be accurately measured. The Board of Directors of the Association has evaluated it at a figure which would cover the operating deficit, and in addition set up a reserve fund of $4,000 to cover any possible losses on its loans.[17] If the Corporation were paid at the rate of 50 cents per bale on the cotton delivered to the Association through its

[17] On August 31, 1927, the Association paid the Corporation $13,348.25 as compensation for these intangible services. This restored its capital investment to its original par value and provided a surplus of $4,000 as of that date.

credit services it would probably show an operating profit.[18]

At the present time the Corporation has loans outstanding in sixty-five counties. Three of these counties represent over sixty-one per cent of the total; while the fifty-five counties carrying the smallest amounts represent less than seventeen per cent. Evidently the loans in these fifty-five counties, averaging only a little over a thousand dollars per county, are very expensive. This has led the manager to propose that the activities of the Corporation be concentrated in those counties where its most profitable business exists. This would probably solve the problem of operating deficits; but it would certainly lead to charges of favoritism. As a business proposition it is sound and economical. As a practical expedient, under the circumstances, it is impossible. The Corporation will probably continue to show an operating deficit for many years.

The C-9 and C-10 loans of the Corporation are not, in general, eligible for rediscount with the Federal Intermediate Credits Bank, as are the crop production loans.

[18] The Manager, Mr. B. C. Pittuck, has stated very clearly and concisely the difficulties under which the Corporation operates. He says: "We had an expensive organization period before us. We found it incumbent upon this Corporation to educate the member applicants, the Field Service of the Association, and our own representatives. We were on the defensive for the reason that those we desired to serve did not know under what conditions we could render that service. The result was that it was necessary for us to spend time and money to enlighten all concerned about the "why" and the "how" of our programs. . . . In many instances it cost us more to show why a loan could not be made than we earned on a dozen loans.

"The very nature of our organization, then, creates an operating expense far in excess of like costs borne by commercial lending agencies. We do not charge for applications, or for inspections, or for any services rendered. Our income is limited to the interest earned on the proceeds of loans used by the borrowers, and only for the exact time the money is used. We have every known Texas Credit hazard to consider in connection with our loans, for these come to us from every section of the State."

This has severely restricted the credit program. With a $200,000 capital investment the Corporation has used $50,000 as margin for rediscounting purposes, and has retained the other $150,000 for direct loans under its C-9 and C-10 programs. The law creating the Federal Intermediate Credits Banks permits a maximum rediscount of ten times this margin. However, the Houston Bank has refused to allow this maximum privilege. During 1926-27 a maximum ratio of 1 to 6 was permitted; and during the current year this ratio was cut to 1 to 4. With a margin of $50,000 this has provided an available loaning capacity of $200,000. Fortunately, the Corporation has been able to rediscount enough of its C-9 loans to increase this approximately $62,000. In addition the Federal Reserve Bank has rediscounted some of the paper of the Corporation. This has made available approximately $500,000 for all the credit programs. The Corporation cannot serve its legitimate credit functions, nor can it operate efficiently with such a low limit. Realizing this, the Association on July 11, 1927, increased the capital investment to $300,000. If $150,000 of this is posted as margin with the Intermediate Credits Bank the lending power of the Corporation will be increased approximately $400,000. This should care for any normal increase in demands for one year, possibly even for two years. No adequate expansion is possible until the Intermediate Credits Bank grants a more liberal rediscount ratio.[19]

The Corporation has been able to rediscount with the Intermediate Credits Bank at 4¾ per cent. The funds so

[19] Since this was written the Corporation has made a contract with the Intermediate Credits Bank which provides, in effect, the maximum rediscount privilege. The Corporation is to continue its $50,000 cash margin, upon which it will be allowed to rediscount $250,000 worth of production credit paper with the Bank. If this does not meet the needs of the Corporation, it may secure another $250,000 from the Bank by depositing $50,000 of its notes as margin. This provides a total lending capacity of $750,000 for next year; certainly as much as the Corporation can safely handle with its present facilities.

procured are loaned at 6¾ per cent or at a margin of 2 per cent to the Corporation. The C-9 and C-10 loans carry a 7 per cent rate of interest. The borrower in all cases pays interest only for the exact time he uses the money. This to the average borrower, undoubtedly represents an interest saving ranging from 1 per cent to 4 per cent.

One of the most brilliant leaders of the Texas coöperatives has said, "It is now a well-known fact that the Association is completely and adequately financed, and that it has no financial problem whatever." Manifestly, this is an over-statement. There remain several substantial problems. When these are solved, one may safely surmise that others will appear. However, the Association has developed machinery for handling these problems as they arise—machinery which heretofore has proved adequate and gratifyingly efficient.

CHAPTER VIII

MARKETING FUNCTIONS AND PRICE POLICIES

THE Texas Farm Bureau Cotton Association is essentially a selling agency. Its basic problems are those of sales and prices. Its numerous subsidiary activities, such as coöperative gins, and member credit programs, are intimately correlated to its selling function. These extra-marketing activities are now assuming scope and significance of their own; but all were initiated originally as aids to the marketing program.

The marketing program was described in varied and ofttimes conflicting categories by the enthusiastic coöperators. Under the spell of the dramatic and ardent Sapiro many confidently expected the new organization to sweep aside the old order, and to give the embattled farmer power to dominate the market and fix his own prices. That this could be done was rarely questioned. That it ought to be done was accepted without argument. One of the most astute leaders of the crusade had said, "In all commerce where there are many sellers and one buyer, the buyer must fix the price; but where there is one seller and many buyers the seller must fix the price; and the one who has the right or privilege to fix the price will fix it to his own advantage."

A scant dozen of the more experienced and intelligent leaders of the movement anticipated the intricate complexities of their marketing problem. Even these had given slight thought to the matter of methods and devices prior to the end of the organization campaign. All their energies had been employed in procuring the minimum sign-up.

With the first Board of Directors duly installed, price policies and marketing procedure assumed the dominant place on the agenda of that body. They have held that position to the present time. Probably half the work of the Board during the past six years has centered about these problems.

From the first it was evident that the Association was not going to be in position to dominate the world market for Texas cotton. This eliminated any possibility of materially affecting the market price. Many of the leaders of the movement still talk of the influence the Association has had, and is having, on the basic price level; [1] but with a delivery ranging from 2 per cent to 5 per cent of the Texas crop this influence has not been appreciable.

The possibility of any monopoly influence being eliminated, the pricing function of the Association becomes a relatively simple matter. Evidently farmers' prices may be materially influenced by coöperative activity in only two ways: (1) Some of the wastes of the traditional marketing system may be reduced, or even eliminated. (2) The fluctuations in market price within any given year may be completely removed. The marketing devices of the Association have been created with these two ends in view.

Many minor changes have been made in these devices, but they are basically the same today as outlined by Sapiro in 1920. For eliminating the wastes of the traditional system the Association has adopted two devices, or sets of devices: (1) direct sales to mills; and (2) large scale marketing operations. For stabilizing prices to its members the Association also has developed two devices: (1) a distribution of sales throughout the year, usually

[1] Farm Bureau News, February 15, 1923. C. O. Moser. "Perhaps the greatest single thing the American Cotton Growers Exchange has done this year has been the influence it has been on the market, which has been at least 5 cents per pound on the price of cotton during the past year."

called orderly marketing, or merchandising; and (2) a system of annual pools.

Reasoning from the experience of some of the California coöperatives, Sapiro laid great emphasis on the selling of a product at the point of consumption. In fact he had called this the "Keystone of coöperative practice." This idea fit nicely the well-established theory of the cotton farmers that they were consistently robbed by the many agencies standing between them and their ultimate market. One rarely finds any mention of millers and mill prices in the extensive literature dealing with the price problems of cotton farmers. Local merchants, factors, exporters, and the great exchanges, were bitterly assailed by agricultural leaders. All apparently assumed that farmers' prices would be satisfactory if only some method could be found for eliminating all these parasitical middlemen, and for carrying their cotton direct to the mill. This the coöperative organizers solemnly promised their members, and confidently expected to do.

In no feature of their work is lack of experience and intimate knowledge of their business more apparent than in this bland assumption that the century old customs of the cotton trade could be changed over night. On the other hand, in no phase of their operations have they shown more persistent or more intelligent attempts to realize a definite goal.

Undoubtedly the spinners are being convinced of the practicability and advisability of direct relations with the coöperatives. The American Cotton Manufacturers Association has repeatedly endorsed the work of the associations, and expressed a desire for closer trade relations with them. Their appraisal of the marketing methods of the coöperatives is well expressed in this resolution adopted at their annual convention in 1924: "Whereas the old method of marketing cotton has permitted an undue pressure on the market at the beginning

of the season and has encouraged speculation at various stages later in the season; and whereas such conditions tend toward violent fluctuations in prices of the staple with attendant uncertainty and hesitation in the dry goods market; and whereas these evils both in the cotton market and the cotton goods market can only be corrected by an orderly and uniform distribution of the cotton crop;

"Therefore be it resolved that the coöperative handling and marketing of cotton by its producers can best bring about these results;

"Resolved further that the American Cotton Manufacturers Association in convention assembled, endorses the coöperative idea of marketing . . . to the end that an adequate and uniform supply of cotton may be secured for the manufacturers at as high price for the producer as the natural and unrestricted law of supply and demand will permit."

Many foreign groups of spinners have likewise expressed enthusiastic approval. In the summer of 1925 the general managers of several of the state associations, and the Secretary of the American Cotton Growers Exchange visited all the important European textile centers. They explained the policies and purposes of the coöperatives to many groups of spinners. In Belgium the coöperative society "La Textile," which controls seventy-five per cent of the spindles of that country, agreed to establish direct relations at once. In France, Spain, Germany and England contacts were made with large spinner organizations, and plans were drawn for direct farm-to-mill sales. In Vienna the mission laid their plans before the International Cotton Conference representing twenty-one spinner associations. This Conference enthusiastically endorsed their plan.

Immediately after this European trip Mr. Arno S. Pearse, General Secretary of the Master Cotton Spinners

and Manufacturers Association (the largest cotton mill organization in the world—controlling more than a hundred million spindles), visited the Texas Association and pledged his unqualified support to the plan. According to his count there are five significant ways in which the coöperatives may improve the whole cotton trade. They can improve the quality of cotton, the ginning process, and the baling methods; they can stabilize the market, and establish uniform types which the spinners can accept with confidence.

With the mill buyers of the world quite willing to purchase their cotton direct, there still remains the problem of arranging terms. The obstacles to sales on buyer's call [2] apparently have been satisfactorily circumvented by a legal fiction. The Association has organized a sales corporation with a capital stock of $200,000, all of which is owned by the Association. This corporation to all intents and purposes is the Sales Department of the Association, but maintains an independent legal existence. All cotton is marketed through the corporation under a cross-contract which stipulates that the corporation shall purchase the cotton at a contingent price, and market it under certain specified rules. The price paid to the Association shall be the resale price less the expenses of operating the corporation. Since the corporation is organized under the general corporation laws of the State, and not under the coöperative marketing statute, the legal restrictions of the latter, which presumably prevent the Association from operating on the futures exchanges, do not apply to it. Consequently, it can sell on buyer's call and hedge its sales. This has made it possible for the Association to meet the millers' terms.

The quantity of cotton sold abroad, either to millers or to their brokers, has steadily increased. The following table shows this consistent growth of direct sales.

[1] See Chapter V, page 146.

TABLE XIV

PERCENTAGES OF ASSOCIATION COTTON SOLD LOCALLY AND PERCENTAGE SOLD DIRECT, 1921-1928

Season	Bales Handled	Percentage Sold Locally	Percentage Sold Direct
1921-22	93,802	95%	5%
1922-23	77,706	77.5%	22.5%
1923-24	182,318	68%	32%
1924-25	284,322	51%	49%
1925-26	244,318	36%	64%
1926-27	198,831	38%	62%
1927-28		12% (a)	88% (a)

(a) As of February 1, 1928.

So far as the writer knows there is absolutely no method by which the dollar-and-cents value of the direct-sales device may be computed. The coöperative leaders point to it with justifiable pride. Certainly, for them it represents a well-earned victory. A study of thousands of individual sales records fails to prove that these direct sales have netted them higher prices than their local sales. Nevertheless, the spread between the interior local markets and the spinner markets has been reduced. How far this is an indirect result of coöperative activities, it would be impossible to estimate.

In performing those tasks incident to carrying cotton from farm to mill, the Association has steadily improved its technique. This technique was to some extent borrowed from the larger cotton firms in the commercial trade. In some cases the improvements introduced by the Association have been remarkable; in all, they have tended to reduce the wastes of the traditional system.

Manifestly, the Association did not begin with the first function involved in the marketing processes and consciously and logically set about improving the technique for performing it; and then take up the second function in like manner. Technological advances rarely happen in just that way. Rather, a little patchwork is done here,

and a little elimination there as the need for it arises, or some one perceives the opportunity for a short-cut. We find that ginning, the first function in the chain, and probably the one in which most waste occurs, is the last one to engage the attention of the Association. Only after six years of operation did the Association attack this problem.

From the standpoint of immediate and visible results the improvements in warehousing and insurance have first rank. A long-time view of the situation will probably show the changes effected in ginning and grading as far more significant.

During its first year the Association stored cotton in seventy-one interior warehouses scattered all over the State. This meant exorbitant warehousing and insurance rates, as well as severe handicaps to the proper functioning of the sales department. During the first year storage costs averaged $2 per hundred bales per day. The next year this was reduced to 50 cents where it stood for two years. In 1924 it was reduced to 33 cents where it has remained for the past three years. This indicates an annual saving, as compared to the first year, of well over $350,000.

Insurance rates have been reduced even more than storage, through the policy of concentrating all cotton in the only AAA warehouse in Texas. During 1921-22 the average insurance rate was $1.51 per hundred dollars value per annum. In 1922-23 this was cut 89 per cent to 16.2 cents. In 1924 this was reduced to 13.5 cents; in 1925, to 11.5 cents; and in 1927, to 9.5 cents. The tremendous savings realized on insurance is indicated in Table XV, which compares the actual cost of insurance on all cotton handled during a six-months' period with the costs had the cotton been stored in interior warehouses of the various classifications indicated.

To summarize this table: If the 38,490 bales sold lo-

TABLE XV

DIFFERENCES IN THE COST OF INSURANCE BETWEEN COTTON CONCENTRATED IN THE VARIOUS GRADES OF CLASSIFIED WAREHOUSES. BASED ON ACTUAL MOVEMENTS IN AND OUT OF THE HOUSTON COMPRESS, FROM AUGUST 31, 1923, TO JANUARY 31, 1924, AND COVERING 105,451 BALES OF ASSOCIATION COTTON

Item No. 1. Holding Time [a]

Date	Values	.01½–10% [c] AAA	.02–10% AA	.04–10% A	.05–10% BB	.15–10% B	.26–10% C	.40–10% D
Aug., 1923	$ 66,840.00	$ 9.02	$ 12.04	$ 24.06	$ 30.08	$ 90.24	$ 156.41	$ 240.63
Sept., 1923	846,768.00	114.31	152.42	304.83	381.05	1,143.16	1,981.44	3,048.37
Oct., 1923	5,686,320.00	767.65	1,023.54	2,047.08	2,558.85	7,676.54	13,305.99	20,470.76
Nov., 1923	11,148,390.00	1,505.03	2,006.71	4,013.42	5,016.78	15,050.33	26,087.23	40,134.21
Dec., 1923	11,687,670.00	1,577.84	2,103.78	4,207.56	5,259.45	15,778.35	27,349.15	42,075.62
Jan., 1924	10,050,304.00	1,356.79	1,809.06	3,618.11	4,522.64	13,567.91	23,517.72	36,181.09
Total		$ 5,330.64	$ 7,107.55	$ 14,215.06	$ 17,768.85	$ 53,306.53	$ 92,397.94	$142,150.68

Item No. 2. Cost on Local Sales

Date	Values	AAA	.11–10% [c] AA	.12–10% A	.13–10% BB	.20–10% B	.30–10% C	.40–10% D	No. B/C
Aug., 1923	$ 59,770.00	$ 59.17	$ 59.17	$ 64.55	$ 69.93	$ 107.58	$ 161.37	$ 215.17	500
Sept., 1923	320,334.00	144.15	317.13	345.96	374.79	576.60	864.90	1,153.20	2,330
Oct., 1923	854,161.00	384.38	845.61	922.49	999.36	1,537.49	2,306.23	3,074.98	7,904
Nov., 1923	1,413,487.00	636.07	1,399.35	1,526.56	1,653.78	2,544.27	3,816.41	5,088.55	5,535
Dec., 1923	478,452.00	215.30	473.66	516.72	559.78	861.21	1,291.82	1,722.42	2,604
Jan., 1924	3,452,787.00	1,553.76	3,418.26	3,729.01	4,039.76	6,215.01	9,322.52	12,430.03	19,617
Total		$ 2,992.83	$ 6,513.18	$ 7,105.29	$ 7,697.40	$ 11,842.16	$ 17,763.25	$ 23,684.35	38,490

Item No. 3. Cost on Export Cotton [b]

Date	Values	.86–10% [c] AAA	.86–10% AA	.87–10% A	.89–10% BB	.96½–10% B	1.07½–10% C	1.15–10% D	No. B/C
Aug., 1923	$ 212,572.00	$ 1,645.30	$ 1,645.30	$ 1,664.43	$ 1,702.70	$ 1,846.18	$ 2,056.63	$ 2,200.12	1,500
Sept., 1923	2,180,095.00	16,873.93	16,873.93	17,070.14	17,462.56	18,934.12	21,092.42	22,563.98	13,617
Oct., 1923	699,162.00	5,411.51	5,411.51	5,474.43	5,600.28	6,072.22	6,764.39	7,236.32	3,800
Nov., 1923	4,691,118.00	36,309.25	36,309.25	36,731.45	37,575.85	40,742.36	45,386.56	48,553.07	22,350
Dec., 1923	5,248,080.00	40,620.14	40,620.14	41,092.46	42,037.12	45,579.57	50,775.17	54,317.63	23,800
Jan., 1924	405,605.00	3,139.38	3,139.38	3,175.88	3,248.90	3,522.68	3,924.23	4,198.01	1,900
Total		$103,999.51	$103,999.51	$105,208.79	$107,627.41	$116,697.13	$129,999.40	$139,069.13	66,967

[a] 21 days' free time considered on 105,457 B/C. Average holding time per bale 54½ days.

[b] Export Shipments figured on the basis of Port Warehouse and destination Liverpool, War Risk not included. All interior warehouses carry a 10–10% rate in excess of the rates used in this comparison.

[c] In each case these figures represent the insurance premiums in cents per hundred dollars valuation.

cally had been handled in AA warehouses, the cost would have been $5,297.26 more; in A warehouses, $12,996.88; in BB warehouses, $17,142.78; in B warehouses, $56,-825.22; in C warehouses, $101,837.82; and in D warehouses, $157,511.56. If the 66,967 bales exported had been stored in AA warehouses, the increases in cost would have been $1,776.91; in A warehouses, $10,093.70; in BB warehouses, $16.066.11; in B warehouses, $60,673.51; in C warehouses, $113,067.15; and in D warehouses $171,-889.66. Or if the cotton had been distributed among the B, C, and D warehouses, as it was in 1921-22, this cost would have been at least $200,000 greater.

"Country damage" [3] has been practically eliminated on Association cotton. It is impossible to state exactly what this means in dollars and cents to the members. The United States Department of Agriculture has estimated the loss by "country damage" to be $2.50 per bale. The insurance premium against this loss is 30 cents per $100 per year on export cotton; [4] but a refund, to a maximum of 25 cents, is allowed if no damage is suffered. During the year in which the statistical study shown in Table XV was made the Association recovered $43,000 of its "country damage" premiums. During the past three years the maximum refund has been allowed.

With the concentration of all cotton in one central warehouse grading and classing are greatly simplified. A half-dozen expert graders, working under the best possible conditions,[5] now perform this service. Two samples are

[3] "Country damage" is the deterioration of cotton caused by exposure of the bales to weather hazards in gin, and farmyards.

[4] No insurance is taken out against "country damage" on cotton sold locally since the actual cotton is presumably seen by the buyer and the damage is reflected in his price.

[5] The accurate grading and stapling of cotton is one of the most difficult technical problems in the whole field of physical classification. There are over a thousand possible cotton classifications; last year the Association found a hundred and fifty-three in its stock. The recognition of subtle variations in color, length of staple, quality,

taken from each bale as soon as it reaches the Association warehouse. These are classed as to grade, staple and character, and a tag is attached to the bale indicating the pool in which it falls. The samples are sent to Dallas where they are stored until their corresponding bales are sold. Then they are sold as loose cotton. The Association realizes a substantial amount each year[6] from this "city crop" which under the traditional system was customarily lost to the farmer. In fact, the farmer probably lost more than this because his bale had six or eight samples drawn before being sold.

The classing of Association cotton has improved steadily until it is as reliable as that of any cotton merchant in the world. Very rarely are there any protests from the spinners. Some protests from members are inevitable. Few members attempt to produce a uniform variety of cotton. Weather conditions are notoriously uncertain during harvesting season in much of the State. Consequently, a member may ship six bales of cotton which he thinks to be alike, only to find that they are placed in six different pools.

One surprising feature of Association classification is indicated in Table XVI. This table shows the grade and staple lengths of all Association cotton during the 1921-1927 period. When this is compared with the grade of the

luster, and character require not only a long and careful training on the part of the classer, but also exact and unvarying atmospheric conditions. A slight change in light or humidity in the classing room will throw out of line the work of the best cotton classer. At present all classing of Association cotton is done in one room, where physical conditions are carefully controlled.

[6]

1921-22	$ 8,270.25
1922-23	$12,760.20
1923-24	$12,760.20
1924-25	$59,581,37
1925-26	$43,337.91
1926-27	$26,632.12
Total first six years	$204,255.77

TABLE XVI

GRADE AND STAPLE OF ASSOCIATION COTTON, 1921–1927

	1921–1922		1922–1923		1923–1924		1924–1925		1925–1926		1926–1927			
	Number of Bales	Per Cent of Total	Number of Bales	Per Cent of Total	Number of Bales	Per Cent of Total	Number of Bales	Per Cent of Total	Number of Bales	Per Cent of Total	Number of Bales	Per Cent of Total	Total Bales	Per Cent of Total
Grades:														
Good Middling and above	6,749	7.19	9,868	12.70	10,011	5.49	82,703	29.10	33,937	13.90	7,743	3.95	151,011	14.00
Strict Middling	28,480	30.37	33,542	43.17	45,354	24.88	117,793	41.45	76,768	31.42	50,114	25.57	352,051	32.64
Middling	30,058	32.04	24,433	31.44	56,424	30.95	61,602	21.68	79,411	32.50	63,191	32.24	315,129	29.22
Strict Low Middling	16,327	17.41	6,554	8.43	43,409	23.81	8,879	3.13	35,619	14.58	39,007	19.90	149,795	13.89
Low Middling	6,660	7.10	1,544	1.99	20,908	11.46	1,911	.67	11,249	4.60	24,567	12.54	66,839	6.19
Under Low Middling	5,528	5.89	1,765	2.27	6,212	3.41	11,271	3.97	7,336	3.00	11,363	5.80	43,475	4.03
Total	93,802	100.00	77,706	100.00	183,321	100.00	284,324	100.00	244,324	100.00	195,982	100.00	1,078,459	100.00
Staples:														
1 1/16″ and above	1,891	2.02	1,708	2.20	1,489	.82	3,538	1.24	15,489	6.34	3,605	1.84	27,320	2.53
1″ to 1 1/16″	22,828	24.34	31,773	40.89	11,108	6.09	23,775	8.37	69,696	28.52	30,562	15.59	189,742	17.59
7/8″ to 1″	63,361	67.55	43,955	56.57	165,443	90.74	229,810	80.87	142,275	58.23	151,254	76.18	795,098	73.82
Less than 7/8″	5,712	6.09	270	.34	4,278	2.35	27,036	9.52	16,868	6.91	10,564	5.39	64,728	6.00
Total	93,802	100.00	77,706	100.00	183,321	100.00	284,324	100.00	244,324	100.00	195,982	100.00	1,078,459	100.00

whole crop, Association cotton is found to be two full grades better than cotton sold under the customary street auction method. It is highly improbable that the Association actually gets a superior class of product. In fact, that hypothesis has no justification whatever. The only tenable conclusion is that the street auction fails to provide a method by which the true class of cotton may be determined.

In 1922 the Association created a Traffic Department. For the past five years it has handled the transportation problems of the Association. During that time it has collected back from the railroads a total of $354,226.63, made up of the following items:

Concentration claims	$295,914.42
Straight overcharge claims	29,917.21
Loss claims	28,395.10
This represents a saving of	70,845.32 per year.

It may be argued, with some show of credibility, that this does not represent a net elimination of waste as compared to the traditional system. Under the latter the cotton merchants have been quite as successful, perhaps, in recovering overcharges and other claims against the transportation agencies. However, it may be doubted that all, or any, of this reaches the cotton grower. He sells his cotton in a local market. Transportation costs to the central markets, ports, or mills certainly affect the price. If the cotton merchant recovers part of these transportation charges, he may pay more for the cotton. If the competitive system worked with automatic precision, he would. A reasonable doubt may be allowed on this point.

Aside from this largely routine work of recovering actual damages and overcharges from the transportation companies, the Traffic Department has attacked the larger problem of basic freight rates on cotton. Six cases before the Interstate Commerce Commission and the State Rail-

road Commission have been prosecuted. The first of these, begun in 1923, involved an application of the carriers for a twelve per cent increase in the rate on cotton. A strange situation developed, again illustrating the fact that the interests of the cotton farmer are not always served by his puerile reliance on Free Competition to set his metes and bounds: most of the cotton merchants of the State found their interests aligned with those of the railroads. The real clash was between the port merchants and the interior buyers. In such a situation the interests of the two major parties, the growers and the spinners, were apt to be quite ignored. For the first time the growers had an agency through which they could voice effective protest. As a result the increase has not been granted. The resulting savings to the members of the Association, during the past five years, certainly exceeds a quarter million dollars.

In 1925 the railroads filed an application with the Interstate Commerce Commission for an eleven per cent advance in freight rates on practically all class and commodity rates in the Southwest, including those on cotton. The carriers later amended their plea, and requested a five per cent increase. This was denied by the Interstate Commerce Commission.

Again in 1925 the problem was presented to the Interstate Commerce Commission through an application from many Southwestern chambers of commerce and similar agencies, requesting substantial reductions in many freight schedules, but omitting cotton. The carriers answered that if such reductions were allowed they must be permitted to recoup their losses by advancing rates on other schedules. Again the farmers were in the position of an innocent bystander whose interests are not a matter of great concern to the parties in conflict.[7] And again the Association effectively spoke in their behalf.

[7] It is interesting to note that the cotton schedules were advanced twenty-nine per cent to one hundred and eighty seven per cent during

In 1926 the Association, in conjunction with the other similar organizations of the South, initiated a suit before the Interstate Commerce Commission for substantial reductions on all cotton rates. Hearings have been held on this case for a period of two years. No decision has been rendered. But, the significant fact is established that the cotton farmer now has an agency which can speak with authority in representing his interests in this perennial struggle over freight rates.

In February, 1926, the Galveston Exchange filed a complaint with the Texas Railroad Commission asking that rates on cotton to Galveston be placed on a parity with those applying to Houston. This could be done in two ways: rates to Houston could be advanced, or rates to Galveston might be lowered. All Association cotton is concentrated in Houston. Consequently, the Association protested vigorously against any increase in the Houston rates. As a result, the Commission entered a ruling that no equalization adjustment would be made by increasing the rates to Houston.

Recently the Association has participated in a case brought to the Interstate Commerce Commission by the Alabama State Docks Commission. This complaint was instituted for the purpose of destroying the present "any quantity" rates on cotton, and of establishing different rates for carload and less-than-carload shipments. Almost all cotton handled by the Association moves in small lots.[8] The creation of a system of less-than-carload rates would force the Association to revert to its first-year plan of assembling cotton in interior warehouses all over

the period of Government control, 1918-1920, while the maximum advance on other schedules in the territory was thirty-five per cent. Another example of the manner in which the interests of the farmer may safely be left to the conflicting interests of agencies entirely beyond his ken or control.

[8] Last year the average bill of lading on Association cotton covered less than two bales.

the State. The Traffic Manager of the Association says, "The result of this complaint, had it been acted upon favorably by the Commission, would have been a death blow to our organization." The Alabama Commission was induced to withdraw its complaint.

The Traffic Department, in conjunction with the Legal Department, is writing a new chapter in the devious history of cotton freight schedules in the Southwest.[9]

In 1927 the Association again began its march against the traditional system. One of the basic institutions of that system was the commercial gin company. Like the country store, the rural bank, and the local cotton market, it was a product of the post Civil War economic revolution. Under the old régime the gin plant was an integral part of the plantation scheme of organization. Immediately after the break-up of that régime the "common gin," or "public gin" made its appearance. For fifty years it was one of the accepted expedients of the Cotton Kingdom. Its days are numbered in the western half of the belt.

The commercial gin system does not fit the coöperative pattern as it is being developed in Texas. Uniform cotton communities are practically impossible under such a system. Gin-stands are not cleaned after each bale is ginned, but are left full of seed-cotton. Thus each bale has a small amount of lint from the preceding one; and the seed are inevitably mixed. Unless a farmer is willing to buy new seed every year there is little use in trying to grow an improved type of cotton. The only alternative is to have a gin which handles only one type.

Probably more important from the standpoint of the Association is the necessity for having some sort of local

[9] The writer has studied every cotton freight rate case before the Texas Commission, since its creation in 1893. For the first time the farmers are being heard; for the first time an effective and vociferous agency exists which represents, directly and unequivocally, their interest.

plant as a rallying point for members. An association three hundred miles away is hardly tangible enough to hold the personal loyalty of a cotton farmer. On the other hand, a gin in the community is something he can see and understand. It is physical evidence of the existence, and strength of his organization. Furthermore, it provides incentive for an active interest in Association affairs. Here he regularly meets other members, and discusses the problems and practices of the organization.

The Association gin also becomes the prime agency for procuring deliveries. The ginner knows every member in his district. Presumably, all Association cotton will come to him. He will be charged with the task of directing it into proper channels. He can also assist the members in making out bills of lading, drafts, and other documents. He might draw samples at the gin,[10] and thus eliminate all necessity for later opening the bale.

Furthermore, under the commercial gin system, the technique of ginning has advanced slowly. A ginner customarily has had all his capital invested in his plant. Technological advances which mean the junking of his plant have had to wait a swift fire, or slow depreciation. Quite often an obsolete and inefficient plant would continue to operate for years—gin-cutting the lint, mixing seeds, lowering the grade through ineffectual cleaning machinery, leaving cotton on the seed to swell the crop of linters, and increasing the fire hazard. Some gins cost their communities annually more than their plants were worth. Individual operation has meant irresponsible operation.

The Association enters the field with a clean slate. It can select the location for its gins with two purposes in

[10] In 1923 the Texas Legislature passed a law requiring ginners to draw two samples from each bale. These samples were intended for use in selling cotton, to obviate the necessity for later cutting the bale. However, as the buyers refused to buy on the basis of these samples, the law is now ignored.

view: (1) to provide gins for those communities which have inadequate facilities; and (2) to serve the larger purposes of the marketing organization. It can immediately secure the advantages of all technical improvements in the industry, which have come so swiftly during the past dozen years. In buying machinery and supplies it has the advantage of purchasing on a large scale. Credit may be secured at about half its cost to a small commercial gin company. Operating methods and devices may be easily standardized.[11]

During the spring of 1927 the Association organized the Texas Cotton Growers Gin Corporation with a capital stock of $200,000 all of which was paid for out of the 1% Reserve Fund. This subsidiary is organized and controlled along the same lines as the Finance Corporation, and the Sales Corporation. During the summer and fall of 1927 it began establishing gins wherever there appeared to be a need, and the Association membership requested the service. In all cases the Corporation retained fifty-one per cent of the stock of the gin company, and offered the other forty-nine per cent for sale, at par, to local members.[12] Before the end of the harvesting season seventeen gins had been put into operations. Since that time five more companies have been organized. Table number XVII gives the statistics on these gins to December 31, 1927.

Ginning is the last function, in this category, to be assumed by the Association. However, the Board has begun to lay plans for taking over compressing and warehousing.

[11] Most advantages enjoyed by the Association gins may also be secured by a large corporation establishing and operating a line of gins. As a matter of fact this is occurring all over the western half of the belt. The individual commercial gin company is swiftly passing from the scene.

[12] See Appendix F for the articles of incorporation, and the by-laws under which these gin companies are organized.

TABLE XVII

STATISTICS ON ASSOCIATION GINS AS OF DECEMBER 31, 1927

Name of Gin Co.	Capital Stock	Amount Subscribed by Members	Amount Subscribed by Corp.	No. Bales of Cotton Ginned 1927-1928
Abernathy	$35,000	$10,500	$24,500	681
Ballinger	$30,000	$10,100	$19,900	2,076
Belton	$30,000	$11,700	$18,300	1,381
Bradshaw	$25,000	$11,100	$13,900	1,899
Cotton Center	$30,000	$12,800	$17,200	409
Floydada	$35,000	$14,700	$20,300	452
Guy	$20,000	$ 5,900	$14,100	931
Hamlin	$35,000	$18,100(a)	$16,900	1,501
Levelland	$35,000	$14,500	$20,500	2,372
McCauley	$30,000	$ 9,600	$20,400	1,118
Merkel	$35,000	$14,100	$20,900	1,442
Ralls No. 1	$65,000	$31,500	$33,500	2,304
Ralls No. 2	(Operated under one charter with Ralls No. 1)			
Roby	$30,000	$15,500(a)	$14,500	1,894
Ropesville	$35,000	$14,800	$20,200	1,460
Sylvester	$35,000	$13,200	$21,800	1,484
Totals	$505,000	$208,100	$296,900	22,551

[a] The stock offered to members was oversubscribed in the case of Hamlin and Roby. The individual subscriptions have since been proportionately reduced to bring the table within the forty-nine per cent limit.

It would be futile to attempt a statistical estimate of the waste eliminated by the Association through its assumption of these various marketing functions. No accurate figures showing the wastes of the traditional system have ever been compiled. Many of these wastes are so subtle, and so indirect as to defy mathematical statement. However, as compared to its own first years of operation the Association shows steady and in some cases notable economies. On insurance, warehousing, and classing, little further improvement may be expected. Much valuable work remains to be done on ginning, and financing production.

The two devices created for stabilizing prices to its members—(1) orderly marketing, and (2) a system of annual pools—have set the bounds within which the sales

program has been formulated. Like so many devices employed by the Association, they are quite simple in conception, but in application exhibit unsuspected complications. Certainly a simpler device than the annual pool could hardly be imagined. But its practical effects have not been quite what was expected.

For instance: the men who formulated the system expected it to result in a price schedule which would accurately measure the spinning value of the various classes of cotton sold. In other words, each member of the Association was to get prices exactly determined by the quality of cotton he produced. But this did not result. Many of the Association pools contain a small number of bales. Quite often a whole pool is sold at one time. The price of cotton has fluctuated widely during each of the past five years. Thus it often happens that a low quality pool is sold when the market is very high, and a better pool is sold on a lower market. In such cases a member's poorer grades may net him a higher price than his better ones. This situation appeared again and again under the first contract.[13]

Under the new contract the pooling system is revised to obviate this difficulty. All Association cotton is now placed in one pool, for purposes of price determination. After all cotton is sold, a price is calculated on the basis of Middling grade, hard bodied, white, ⅞″ to 1″ staple, cotton.[14] Then a differential for every variation from this

[13] To give one example: a pool of 173 bales, Strict Middling, white, short cotton sold on a high market, late in the season (1923), for 29.38 cents per pound; another pool of 12,746 bales, Strict Middling, white, 1″ to 1–1/16″ staple, worth at least $5.00 a bale more than the first, sold in several lots throughout the early season months, brought only 26.78 cents. Or to take an example from the current season: on September 7, 200 bales of Middling hard white, 15/16″ to 1″ staple was sold for 24.29 cents per pound. On December 15, 200 bales of Strict Middling, hard white, 1″ to 1–1/16″ staple, worth probably $4.00 per bale more than the first, was sold for 20.69 cents.

[14] From twenty per cent to forty per cent of Association cotton each

class of cotton is computed.[15] The price paid the member for any bale is a component of these two factors: (1) the base price; and (2) the points "on" or "off" this price as determined by the differentials. Under this system the price accurately reflects the relative market evaluation for that particular class of cotton, for that year. In other words, the members are now getting prices which are proportioned to the quality of product delivered.

Aside from this failure of prices to reflect accurately the quality of cotton delivered, the system of annual pools became increasingly unpopular throughout the first five-year period. Members who delivered their cotton early in the season were compelled to wait almost an entire year for their final settlements. To many of the South Texas members, this was a real hardship.

During four years of the first contract period the prices advanced appreciably after the South Texas cotton was delivered.[16] This meant that the North Texas member

year comes within this classification. This is also the cotton contemplated in the futures contracts of our cotton exchanges.

[15] In computing these differentials the Association uses the actual differentials shown in the ten interior markets, which are accepted by the United States Department of Agriculture for the same purpose.

[16] Monthly prices of cotton to producers in United States. From Shepperson's Cotton Facts, Edition of 1926, page 145.

THE UNITED STATES ESTIMATED AVERAGE PRICE IN CENTS PER POUND

	1925-26	1924-25	1923-24	1922-23	1921-22
August	23.4	27.8	23.8	20.9	11.2
September ..	22.5	22.2	25.6	20.6	16.2
October	21.5	23.1	28.0	21.2	18.7
November ..	18.1	22.5	29.9	23.1	16.9
December ...	17.4	22.0	27.7	20.0	13.8
January	17.2	22.7	32.5	25.2	15.9
February	17.7	23.0	31.4	26.8	15.7
March	16.5	24.5	27.7	28.0	16.0
April	16.6	23.7	28.7	27.6	16.0
May	16.0	23.0	28.1	26.2	17.3
June	16.1	23.0	27.8	25.9	19.6
July	15.4	23.4	27.3	24.8	20.7

had to deliver his cotton when street prices were high knowing that his price would be pulled down by the earlier sales of South Texas cotton.[17] On the other hand, during the past three seasons the cotton market has declined sharply after the South Texas cotton was picked. This presents the reverse situation: the South Texas member sees his prices pulled down by large deliveries from the Panhandle. But, he is in a worse condition than the northern member was before: he has already delivered his cotton; while in the reverse situation the member on the plains might break his contract.

For several years there has been an ever increasing demand for a system of shorter pools.[18] When the new contract was being formulated, in 1925, this matter was given long and careful consideration. But section 5 was again drawn to include the statement: "Each pool shall be for a full season." The 1925-26 and 1926-27 seasons showed such radical declines in prices that the South Texas members became desperate. Evidently, some concession had to be made them or wholesale defection would result. Again a legal fiction was made to serve an urgent necessity. An early season pool was established for cotton received before September 1. The pool was to run for a full season; but cotton picked before September 1 was declared to show a "bloom," or luster, which later cotton did not possess. This set it apart, and satisfied the legal requirement that all cotton of identical class must be mingled in the same pool. Of course, the net result of this is a separate pool for South Texas cotton, since no other

[17] This is undoubtedly one explanation of the prevalence of contract breakers. The Field Service has an epigram: "When prices decline, loyalty increases; when prices advance, loyalty wanes."

[18] Every other Association in the South has been compelled to institute shorter pools. The new Tennessee contract is typical of the trend. It provides for daily pools, weekly pools, monthly pools, and annual pools; each member having free option as to which pool his cotton shall enter.

section of the State begins picking before September. The device is too new to have shown any marked results on the Association sales program. But, it marks the passing of the annual-pool system, which Sapiro had raised to the dignity of a Fundamental Principle.

The sales device which has received most attention by coöperative organizers, and students of the movement, is orderly marketing. There are many opinions as to what this phrase means. Some of the Texas coöperators evidently expected the Association to hold its cotton off the early season market, in order to counteract the autumnal glut. In this way it would not only serve to stabilize the whole marketing process, but it would also be able to take advantage of the late-season advance in prices, which was reputed to occur with surprising regularity.

Others interpreted orderly marketing as a system of regular selling throughout the entire year. To these the ideal scheme would be to sell a certain percentage of their product each month, regardless of price movements. This, so the argument runs, would assure the member an average seasonal price for his cotton. Again accepting the assumption of an autumnal dip, in the long run this would mean better prices than the street auction method could show. Sapiro never stated the proposition in such simple terms, but the idea was implicit in all his discussions. In fact, this theory of coöperative sales policy in the field of non-perishable agricultural commodities has enjoyed all but universal acceptance.[19]

Some of the members of the first Board of Directors held this concept of orderly marketing in its simplest form. When they tried to convert it into a practical sales program, they found that quite impossible.[20] They had to

[19] Pronouncements upon the subject by such divers authorities as Mr. W. P. G. Harding, Mr. Arno S. Pearse, Mr. Herbert Hoover, Mr. William M. Jardine, and The American Cotton Manufacturers Association indicate this theory of the movement.

[20] See page 145, Chapter V.

sell cotton when buyers could be found, and the buyers exhibited a surprising lack of orderliness in their operations. In consequence, their conception of orderly marketing has undergone a slight change. Today the approved interpretation is that cotton should be sold as the spinners demand it—but they should be taught to distribute their purchases more evenly throughout the year.

The Board has consistently tried to spread its sales with some degree of regularity. Table XVIII shows sales by fortnightly periods (except for 1921-22 when only monthly statements were available) for the past six years. Only once during that time, in 1925-26, has the Association thrown a large part of its cotton on the market within a short time. The sharp decline in prices during the spring, the unusual flow of late season deliveries, and the desperate attempt of the Board to extricate itself from an already bad situation explain this unfortunate plight.

The discussion of the price policies of the Association, and description of its marketing devices, has not touched upon the big question in the member's mind: "Has the Association sold my cotton to better advantage than I could have sold it myself—has it made money for me?" It is not possible to give a categorical answer to this question. The Association has never made money for all its members; it never can. Under any imaginable set of circumstances some members could, and if doing their own selling would, catch the season's market at, or near the top and consequently realize a higher price than the Association's average for the year. That fact is admitted.

The real question is whether the Association has returned to its members more than the total amount they would have received under the street-auction system. Even when stated thus, the question can hardly be conclusively answered. We know what the members have received each year for cotton delivered to the Associa-

TABLE XVIII

FORTNIGHTLY SALES OF ASSOCIATION COTTON, 1921–1927

Fortnight Ending	1921–1922		1922–1923		1923–1924		1924–1925		1925–1926		1926–1927	
	Number of Bales	Per Cent of Total	Number of Bales	Per Cent of Total	Number of Bales	Per Cent of Total	Number of Bales	Per Cent of Total	Number of Bales	Per Cent of Total	Number of Bales	Per Cent of Total
August 15									605	.25	299	.15
August 31			24		2,800	1.5	1,600	.56	2,716	1.11	650	.33
September 15			86	.1	2,800	1.5	8,100	2.85	6,704	2.74	650	.33
September 30	6.950	7.41	903	1.2	8,232	4.5	15,987	5.62	2,500	1.02	5,050	2.58
October 15			1,601	2.1	1,802	1.0	10,815	3.80	5,006	2.05	8,500	4.34
October 31	8,100	8.63	1,758	2.3	2,436	1.3	1,918	.67	2,043	.84	9,555	4.88
November 15			2,360	3.0	10,250	5.6	4,062	1.43	1,400	.57	3,426	1.75
November 30	11,500	12.26	4.224	5.4	22,564	12.4	6,661	2.34	4,613	1.89	6,400	3.27
December 15			4,330	5.6	29,804	16.4	5,630	1.98	1,698	.69	3,650	1.86
December 31	12,401	13.22	2,675	3.4	5,600	3.1	11,148	3.92	500	.21	700	.37
January 15			7,298	9.4	700	.4	5,837	2.50	10,333	4.33	14,950	7.63
January 31	2,040	2.17	3,801	4.9	2,929	1.6	13,100	4.61	9,315	3.81	17,800	9.80
February 15			523	.7	948	.5	9,506	3.34	7,081	2.90	25,126	12.81
February 28	22,275	23.74	4,881	6.3	415	.2	33,208	11.68	7,856	3.32	24,569	12.54
March 15			14,077	18.1	1,950	1.0	20,514	7.22	3,470	1.42	17,803	9.08
March 31	4,712	5.03	5,008	6.15	3,749	2.1	2,923	1.03	6,159	2.52	10,536	5.38
April 15					17,203	9.4	1,604	.56	8,561	3.50	8,481	4.33
April 30	13,917	14.84	1,455	1.9	23,212	12.7	7,623	2.69	8,320	3.41	8,323	4.25
May 15			1,815	2.3	3,810	2.1	12,550	4.42	8,847	3.62	8,427	4.30
May 31	11,325	12.07	6,138	7.9	5,400	3.0	47,849	16.83	8,852	3.62	2,611	1.33
June 15			11,976	15.4	2,100	1.2	38,559	13.56	9,387	3.84	973	.50
June 30	320	.34	2,208	2.8	8,558	4.7	24,300	8.55	11,624	4.76	10,485	5.35
July 15			515	.7	34,640	13.5	828	.29	4,332	1.77	2,234	1.13
July 31	262	.29							112,402 [a]	46.01 [a]	4,784 [b]	2.43 [b]
Total	93,802	100.00	77,706	100.00	183,321	100.0	284,322	100.00	244,324	100.00	195,982	100.00

[a] 76,287 bales, or 31.23% of the total, was sold during August, 1926. 3,541 bales, or 1.45% of the total, was carried over and sold with the 1926–1927 crop.

[b] 2,384 bales, or 1.21% of the total, was sold during October, 1927. However, this was not pooled with the 1927–1928 crop.

tion,[21] but we have no way of knowing what they might have got had they sold in the customary way. In some years the result of the Association's sales procedure is unmistakable. For instance, one may safely assert that in 1922-23 and again in 1923-24 the Association returned to its members a handsome margin above the price they would have received under the street-auction system. On the other hand, in 1925-26 the members probably lost money by pooling their cotton. Except for those years in which the price movement has been quite marked, comparisons are, at best, of dubious value.

The member commonly compares the price he receives with the price his neighbors get for similar cotton on the local market. Or, as occasionally happens, when the member delivers only a part of his crop to the Association, selling the remainder on the street, he compares his own sets of prices. Two factors vitiate all such comparisons: (1) the common failure of the local market in determining the correct class of cotton; and (2) the wide variations in prices during a selling season. Either of these factors, in a given individual case, may easily outweigh any possible advantage, or disadvantage, of the coöperative pooling scheme.

This whole subject of sales policy is a cause of endless argument among Association leaders. One group contends that the "high dollar" is the ultimate goal of the whole coöperative scheme. Further, the Association will retain the loyalty of its members in direct proportion to the profitableness of its selling operations. Another group

[21] Average net price paid the member each year, and the average net Middling-basis price:

	1921-22	1922-23	1923-24	1924-25	1925-26	1926-27
Average net price per pound.	16.23	25.09	28.75	23.05	16.47	11.32
Average net Middling-basis price per pound.	16.46	24.14	29.31	23.00	18.75	12.46

insist that the creation of a new economic system is the first and essential function of the coöperatives. This will take time and will cost money. Unless the coöperators are willing to pay this cost, the whole movement is foredoomed to failure. Loyalty which is based exclusively on selfishness, and which refuses to bear any of the necessary costs of establishing the larger program, is not an adequate basis for the Association.

There is a bit of truth in both contentions. The Association cannot hope to hold the loyalty of its membership if it consistently loses money for them. On the other hand, it can hardly hope to show such immediate and notable profits as to attract a large part of the Texas cotton growers. The necessity for a sales program which will consistently meet the competition of the street-auction system is apparent. But, the ultimate goal of the coöperative is to supersede that system. This requires a long-time program for the building of a new farmer psychology. This program cannot be carried out on the simple basis of the immediate "high dollar."

CHAPTER IX

THE CONTRACT IN LAW

One of Sapiro's essential contributions to the coöperative marketing movement in the South was the standard marketing agreement, or contract. He had emphasized the necessity for a comprehensive, legally-enforceable contract to govern all relations between member and association. His first work with the Texas Association (1920) was to devise such an instrument.[1] For six years the Association has operated within its legal restrictions. During that time five cases involving vital provisions of the contract have been carried to the Court of Civil Appeals or the State Supreme Court for final adjudication.

The first of these was the famous Stovall case. Stovall was one of the original contract signers, but refused to deliver his cotton. The Association applied to a district court for writs of injunction and specific performance to prevent further breach of the contract. The court denied the plea on the ground that "the contract executed by defendant is unilateral, uncertain in terms, and therefore not susceptible of specific performance."

The Association appealed from this decision to the fifth Court of Civil Appeals. This court sustained the trial court; and the Association carried the case to the State Supreme Court.

The Supreme Court in a well-reasoned and comprehensive decision reversed the lower courts on every point. The opinion, written by Chief Justice Cureton, is a masterly statement of the position which has since been accepted by courts all over the United States.

[1] See Chapter III and Appendix.

In considering the plea that the contract lacks mutuality of obligation and is unilateral in nature, the court recites seven specific provisions which are "of direct financial benefit to the defendant." In summing up the matter the opinion states, "We conclude, therefore, that the promises in the agreement are mutual, that there is an ample valid consideration, and that the contract is not subject to the criticism that it lacks mutuality or is unilateral."

The plea of uncertainty as to terms is also ruled out, both in general, and also as to the five specific provisions attacked. These provisions relate to (1) time of delivery (by the member); (2) place of delivery; (3) period of time within which the Association shall sell; (4) place of payment of member; and (5) method of computing the amount of payment. Number 3 and number 5 have formed the basis of innumerable legal actions in states where the Sapiro, or Standard Contract is employed. Concerning the former the court says, "We think this is sufficiently definite (section 5b of the Contract). However this may be, it is quite elementary that where the contract is silent as to time of performance, the law implies a reasonable time is meant."

Concerning determination of the price to be paid the member, the court says, "We think the price to be paid under this contract is sufficiently definite and certain. Furthermore, the Coöperative Marketing Act expressly authorizes this method of determining the price."

No provision of the contract has stimulated more controversies than the sanctions contained in Section 18.[2] In the Stovall case it was ably argued by defendant's attorneys that the contract was not capable of specific per-

[2] See the brilliant attack on this provision of the Standard Coöperative Marketing Act, and the Contract, by Alvin C. Reis, in American Coöperation, 1925, Volume I, p. 325.

formance, lacked mutuality of sanctions, and, consequently, that the Association was not entitled to equitable relief. The court disposed of this argument in two terse paragraphs:

"The contract before us was authorized by the statute which gives the Association the remedies of specific performance and injunction. The statute having authorized these remedies, whatever may have been the rule in equity, the statute will control."

"Aside from the statute, the plaintiff in error (the Association) because of the nature of its business as a coöperative concern without capital stock, would be entitled to equitable relief."

The court further held that the member, also, would be entitled to equitable relief in case of breach of contract by the Assoication. A suit for damages against an association which had neither capital stock nor sufficient reserves would not be adequate legal protection (to the member) in all cases. Hence, a court of equity would entertain a member's plea for equitable relief. This, the court held, established mutuality of legal sanctions under the contract.

The court went one step beyond the issues raised (in the case), and in an *obiter dicta* ruling, wrote into Texas coöperative law one of its most significant provisions. This was in answer to the question, "Is the Marketing Agreement a contract for the purchase and sale of personal property, or is it an agency contract?" In answering this question the court said, "When the statute is examined and the contract analyzed, it is quite plain that in its essential aspects the Contract is not one of agency as that term is understood. The rule is that the primary test as to the character of a contract is the intention of the parties. . . . In view of the statute, and the express language of the Agreement declaring the instrument a

contract of sale and purchase, we must regard it as such a contract in so far as the parties here are concerned." [3]

By this decision the highest judicial tribunal of the State put its stamp of approval on the basic devices embodied in the Contract and the Association Agreement. It has been necessary to secure judicial interpretation of several specific provisions of the Contract; but the legality of the business mechanism set up, the nature of the Contract, and the sanctions provided have never since been questioned.

The following three cases, prosecuted (by the Association) to a court of final jurisdiction, involved almost identical points of law. In each case a landlord who had signed the Contract and subsequently refused to deliver his cotton to the Association pleaded legal immunity on the grounds that his rental contracts contravened his marketing agreement with the Association.

The first of these cases was begun in district court at Roscoe, Texas, in 1924. The defendant, C. E. Long, had signed one of the original Association Contracts, but had never delivered cotton. The Association sued for writs of injunction and specific performance, to prevent further breach, and also sued for liquidated damages and court costs in the amount of $1,575. The district court granted a temporary injunction from which Long appealed to the Court of Civil Appeals.

The question presented to the Court was a simple one: "Whether a member of the Association, who has leased his land on terms that the tenant dispose of the crop and deposit landlord's share of the proceeds in a bank to the landlord's account, has, within the terms of the Marketing Agreement, 'produced cotton directly or indirectly, or has the legal right to exercise control of any commercial cotton or any interest therein.' "

The opinion, answering this question in unequivocal

[3] Texas Farm Bureau Cotton Association vs. Stovall, 253 S. W. 1101.

terms, forms the basis for all subsequent decisions in cases involving this very common situation:

"The Marketing Agreement did not prohibit the defendant from renting his land, and the only cotton in issue in this suit is that portion to which the defendant was entitled under the rental contract made with his tenants . . . and which consisted of one-fourth of the cotton grown by the tenants at their own expense and one-half of that grown with teams, seed, feed and tools furnished by defendant. Under such rental contract, the legal title to one-fourth or one-half of the cotton so grown was, primarily to say the least, in the defendant, and clearly that portion of the cotton was produced indirectly by him as much so as if it had been produced by employees working for daily wages: the only difference being that in this case the tenant producing the same was compensated for his services by the use of the land for the purpose of realizing for his own benefit the remainder of the crop grown. The fact that the tenant was by agreement with the landlord authorized and empowered to sell the landlord's interest did not convey titles to the tenant to that interest. Manifestly, such a sale would be for the defendant's account and not for that of the tenant. Furthermore, the title to one-fourth or one-half as the case might be, being primarily vested in the landlord, he had the right to exercise control over it, and that right was recognized by both himself and the tenant, as evidenced by their agreement that the tenant should sell it for the landlord's account. It cannot be doubted that authority to the tenant to sell the landlord's cotton, made for the first time after the cotton was grown, would have been a violation of the Marketing Agreement with the plaintiff (the Association); and we perceive no reason why a conclusion to the contrary would follow merely by reason of the fact that the authority to so sell such interest was vested in the tenant at the

time the rental contract was entered into with the landlord." [4]

The second of the three cases involving the conflict between a rental contract and the Marketing Agreement was decided less than two months after the Long case. The legal issue was exactly the same as in the Long case, and the Court merely recited the opinion in that case and added one significant sentence. "The defendant's good faith, or want of good faith, was an immaterial issue, but we are of the opinion that the finding of the Court that the claim of money rental made by the defendant was a subterfuge and an attempted evasion of the contract is sustained by the evidence in the case." [5]

These two decisions established, beyond question, the Association's claims to a member-landlord's share of the crop when he rents his land under a share—or part-crop contract. The landlord's responsibilities under the Association's Marketing Agreement cannot be avoided by a mere change from a part-crop rental contract to one under which he receives a fixed proportion of the proceeds realized from the sale of the crop.

The third case of this type involved one important legal problem not found in the other two. The case began in the District Court of Bowie County. The defendant, V. Q. Kyle, signed an association contract in 1921; but failed to deliver any cotton during the subsequent four years. The Association sued for liquidated damages to the amount of $5,100; and also asked for writs of injunction and specific performance to force him to deliver his cotton to the Association this last year of the contract period.

The jury in the trial court returned a verdict for the defendant. From this verdict the Association appealed to

[4] Long vs. Texas Farm Bureau Cotton Association, 270 S. W. 561. Decided January 31, 1925.

[5] Main vs. Texas Farm Bureau Cotton Association, 271 S. W. 178. Decided March 18, 1925.

the Court of Civil Appeals, on the ground that the trial judge should have instructed a verdict for the Association, leaving only the determination of damages to the discretion of the jury.

The case involves two quite distinct situations. During 1921-22, and 1922-23 Kyle had rented his land under contracts identical with those in the Long and Main cases. Concerning this phase of the case, the Court merely restated the decision on those two cases.

During 1923-24, and 1924-25 Kyle had leased his farm to his brother for a cash consideration ($2,500 per year) to be paid from the proceeds of the first cotton sold each year. This presented the problem of the right of a member to change his form of rental contract and thereby evade his liabilities under the Marketing Agreement. The Court held that the question was solely whether "the rental contract between the appellee and his brother covering the years 1923 and 1924 was a collusive undertaking to evade the obligations of his contract to deliver cotton grown on the premises." That was a question of fact which the lower court should decide. However, the opinion states: "the facts tend strongly to support that charge." [6]

This is the latest decision of a court of final jurisdiction in Texas on the relation of the Association Contract to the rental contract. Under its interpretation of the law, a landlord-member must deliver his proper proportion of the cotton grown provided he rents his land under a share contract. This holds regardless of whether he receives part of the crop as rental, or a part of the proceeds of its sale; regardless of whether his contract with the Association was made before, or after, the rental contract; and regardless of whether the rental contract was drawn for the purpose of evading the Association Contract.

[6] Texas Farm Bureau Cotton Association vs. Kyle, 281 S. W. 629. February 11, 1926.

On the other hand, a cash rental contract, made in good faith, does relieve the member of his obligations under the Association Contract. In such case he "ceases to produce cotton directly or indirectly or to have the legal right to exercise control over any commercial cotton." But, no "collusive undertaking to evade the obligations of his contract to deliver cotton" will be countenanced by the courts.

From the standpoint of legal strategy, and also from the standpoint of financial considerations involved, the protracted Lennox case stands alone in Association history. Two brothers, H. H. and C. D. Lennox, business partners and large cotton planters of Red River County, signed the Association Agreement in 1921. When the Association began operations the partnership owned 1095 bales of cotton. This was delivered to the Association to be marketed under an alleged special agreement between the partnership and Association officials.

In 1922 the Lennox Brothers brought suit against the Association for damages allegedly suffered through mismanagement in the sale of this cotton. They also sued for cancellation of their Marketing Agreement on the grounds "that the Marketing Agreement executed was void for fraudulent representations, and deceit inducing its execution; that the contract was intended and only purported to bind appellant as 'joint-tenants' and not as partners, or otherwise; that appellants are in no wise partners, as trading partners." [7]

The Association met this action with a cross-suit for liquidated damages on all cotton sold by the partnership otherwise than to the Association. Both suits were filed with the district court at Clarksville.

The Association then applied for a change of venue to

[7] Lennox et al vs. Texas Farm Bureau Cotton Association, 283 S. W. 619.

Dallas, where its headquarters were located. The district court denied this application, and the Association carried the case to the Court of Civil Appeals.

This court denied the appeal on two points. First, it decided that the Marketing Agreement had been made in Red River County. The reasoning on this point is interesting. The Association Agreement had been signed by Lennox and Lennox in Red River County. The Committee of 21 had reserved the right to draft a marketing contract "in terms substantially the same as those set forth in the Agreement." [8] However, the Committee had never exercised this right, but had accepted the Association Agreements as membership contracts. Consequently, the court held that the contract had been consummated in Red River County, and that this fact located the court of proper jurisidiction.

The Court also held that the special contract under which the 1095 bales of cotton had been delivered was consummated in Red River County. One of the brothers had gone to Dallas and discussed the terms of this contract with Association officials, but had made no positive commitments. He had then gone home and consulted his brother. Later he phoned the Dallas office accepting the terms previously formulated. This contract, then, was also concluded in Red River County, and an action involving it would lie in that county.[9]

This threw the case back to the Red River County district court. Before the case was called for trial the Association sued for a writ of injunction to prevent Lennox and Lennox from selling their cotton outside the Association. Judge R. J. Williams, then judge of the district court, granted a temporary injunction impounding 1700 bales of cotton. Lennox and Lennox then prosecuted an appeal

[8] See Chapter III, page 84.

[9] Texas Farm Bureau Cotton Association vs. Lennox et al, 257 S. W. 935.

to the Court of Civil Appeals to have this injunction dissolved.

That Court denied the appeal. The opinion held that " . . . the motion to dissolve sets up no ground legally sufficient to require the Court to set aside the temporary injunction. The appellants signed the Agreement, and, in effect, were members of the Association, and it is immaterial, so far as the temporary injunction allowed by the statute is concerned, whether they were joint-tenants or co-partners, as between themselves, in producing or acquiring the cotton. The Association under the statute was entitled to the injunction against appellants." [10]

This decision again threw the case back to the district court, where it was finally set for trial in June, 1926. Five years had elapsed since Lennox and Lennox had signed the Association Contract. That contract had now expired. Consequently, they amended their original plea, eliminating the request for cancellation of their contract, and merely maintaining their action for damages under the special contract.

But this, according to Association attorneys, reduced the action to a simple tort against which the statute of limitations (two years in Texas) had run. The district court sustained this view, and immediately dismissed the whole Lennox case.

From this ruling Lennox and Lennox appealed to the Court of Civil Appeals.

In the meantime the Association's suit for damages was tried. The jury rendered a verdict for the Association, and assessed damages in the amount of $47,219.70. But the trial judge set aside this judgment, and ordered a new trial. The Association appealed from this ruling, and the trial judge permitted the case to go direct to the Court of Civil Appeals.

[10] Lennox et al vs. Texas Farm Bureau Cotton Association, 283 S. W. 619. March 12, 1926.

This appeal, and the Lennox appeal were considered by the Court on the same day. The Lennox appeal was denied, thus finally disposing of the whole case of Lennox against the Association.[11]

The Association's appeal was also denied, on the ground of lack of jurisdiction. In 1924 the State Legislature had passed a law permitting appeals, from any order granting a new trial, by the mere consent of the trial judge. In 1926 the Legislature repealed this law, without making any provision for such cases already on appeal. The Civil Appeals Court ruled that this made it impossible for it to entertain the appeal motion of the Association.[12]

The case was again thrown back to the district court, where it was set for trial July 11, 1927. When it was called, attorneys for Lennox filed a motion with the court to have Judge Williams disqualify himself on the ground that he was related to two members of the Association, who were by virtue of such membership parties to the suit. Judge Williams granted this petition, and immediately certified his disqualification to the acting Governor. The acting Governor appointed another Judge, C. P. Blackburn, to try the case.

The Association then applied to the Supreme Court for a writ of mandamus ordering Judge Williams to proceed with the case. Before this appeal could be considered Judge Blackburn set the case for trial; whereupon the Association applied to the Supreme Court for a temporary injunction restraining him from proceeding, and also restraining the Lennox attorneys from further action in the case until the mandamus hearings were concluded. The Lennox attorneys argued that 1700 bales of their

[11] Lennox et al vs. Texas Farm Bureau Cotton Association, 296 S. W. 328.

[12] Texas Farm Bureau Cotton Association vs. Lennox et al, 296 S. W. 325.

clients' cotton had been held under injunction for almost two years. In the meantime the market had declined disastrously. Somebody would have to stand a tremendous loss on this cotton; and they questioned the ability of the Association to do so. The Court noted the fact that the Association had a reserve fund of over a million dollars; and had deposited a bond of fifty thousand dollars in this case. However, it ordered the Association to put up another bond for ten thousand dollars; and granted the temporary injunction.[13]

On December 8, 1927, the Supreme Court rendered its decision on the eligibility of Judge Williams. The point involved presented a curious legal problem. If Judge Williams were declared ineligible, a great number of the district judges of the State would be disqualified from hearing Association cases. Furthermore, the Association could probably disqualify almost any judge in the State by inducing some relative to join the Association.

There were no precedents for the Supreme Court to follow. In its opinion the State Coöperative Marketing Act and the rules in corporation law were followed. The Act states that "the provisions of the general corporation laws of this State, and all rights and powers thereunder shall apply to the associations organized thereunder, except when in conflict with the express provisions of this chapter." [14] It is an established rule of law that a judge is not disqualified from trying a case involving a corporation merely because he is related to a stockholder.

From these two considerations the Court derived its opinion. "There is nothing in the charter of said Association, or the contract with its members, which . . . would give reason for any rule that would disqualify the trial judge to try a case merely because he is related to a certi-

[13] Texas Farm Bureau Cotton Association vs. Lennox et al, 297 S. W. 743. July 19, 1927.

[14] Article 5763 of the Revised Civil Statutes of Texas, 1925.

ficate member of the Texas Farm Bureau Cotton Association. Certainly a certificate member of the Association, who has entered into its cotton contract, has no direct interest in the litigation, and he is not a party to the suit. A certificate member of such an association is no more a party to the suit in question than a stockholder of a capital stock corporation is a party to litigation of such corporation." [15] In view of these facts the Court issued the mandamus ordering Judge Williams to proceed with the case.

In January, 1928, the case was again in the district court of Red River County. The jury again returned a verdict for the Association, assessing damages of $44,000 against Lennox and Lennox. The case is now [February 1928], for the fifth time, before the Court of Civil Appeals.

Out of this maze of legal technicalities four important rules of law have emerged. (1) The legal jurisdiction, within which cases involving Contract enforcement will lie, is determined. The contract is presumed to have been made where the member signed, and not in Dallas where it was formally accepted by the Association.

(2) The contract, if signed by each member of a partnership, is binding on the partnership.

(3) A certificate member is not a party to a suit involving the Association. Consequently, no judge is disqualified from hearing such suit because of relationship to an Association member.

(4) The Organization Committee was within its legal rights in proceeding to organize the Association in 1921 on receipt of contracts indicating a production of over 500,000 bales.[16]

[15] Texas Farm Bureau Cotton Association vs. Williams. Case not yet reported.

[16] There is still some question on this point which should be decided by the Appellate Court in the appeal now before it. The Supreme Court, in the Stovall case reviewed above, declared the Association

From the standpoint of establishing the legality of the Contract, its nature as an instrument for the purchase and sale of personal property, and the equity of the sanctions in Section 18, the Legal Department of the Association has achieved notable and complete success. From the standpoint of enforcing deliveries from recalcitrant members its success has not been so marked. In 1925 the Board announced its intention of getting "every bale from every member," and ordered the Legal Department to proceed against all contract violators. Yet over twenty thousand contract signers failed to deliver any cotton that year. In fact, the largest percentage of contract violations of any year in Association history occurred in 1925.

The situation has its practical aspects, which quite commonly outweigh legal considerations. It is impossible to proceed against twenty thousand individual contract breakers. To do so would require the services of every lawyer in the State and every court would be swamped. It would certainly wreck the Association.

There is no question but that the Contract would be strictly enforced by any superior court in Texas. In the lower courts the situation is different. It is very difficult to get a jury of farmers, not members of the Association, to convict one of their neighbors. The case can be carried to a higher court, for review, and almost certain reversal. But this is an expensive procedure. Usually the contract breaker is not financially able to pay liquidated damages, or even court costs. Consequently, the Legal Department has prosecuted cases to the higher courts only when some vital contract right was involved, and when the member was financially responsible.

to have been legally formed in compliance with the Coöperative Marketing Statute. However, this question of the good faith of the Committee in totalling the productions indicated on the contracts, was not raised in that case.

However, it would be unjust to measure the value of the Legal Department in terms of number of cases prosecuted, or of damages collected. Undoubtedly its most effective work, aside from establishing the legality of the Contract, has been in advising the Board and officials concerning their multifarious activities.

For five years some of the ablest lawyers in Texas have employed every legal stratagem to break the Association Contract, and to discredit the business methods of the Association. They have failed to do either. No higher compliment could possibly be paid the man who drew that Contract, nor the men who have directed the affairs of the Association in compliance with its provisions.

OTHER CASES INVOLVING CONTRACT RIGHTS

1. Time within which Association must market member's product.
   - Coöperative Association vs. Jones, 185 N. C. 265, 117 S. E. 174.
   - Tobacco Growers' Coöperative Association vs. Bland, 121 S. E. 636 (N. C.).
2. Right of association to equitable relief.
   - Washington Cranberry Growers Association vs. Moore, 201 Pac. 773.
   - Dark Tobacco Growers vs. Dunn (Tenn. 1924), 266 S. W. 310.
   - Nebraska Wheat Growers Association vs. Norquest (1925), 204 N. W. 798.
   - Owen Co. Burley Society vs. Brumback (1908), 128 Ky. 137; 107 S. W. 710.
   - Grays Harbor Dairymen's Association vs. Engon (Wash. 1924), 226 Pac. 496.
   - Arkansas Growers Coöperative Association vs. Brown (1925), 270 S. W. 946.
   - Harrell vs. Can Growers Coöperative Association (Ga. 1925), 126 S. E. 531.

Minnesota Wheat Growers Coöperative Marketing Association vs. Huggins (Minn. 1925), 203 N. W. 420.

Warren vs. Alabama Farm Bureau Cotton Association (1925), 104 So. 264.

Pierce Co. Dairymen's Association vs. Tomplin (Wash. 1923), 215 Pac. 352.

Rowland vs. Burley Tobacco Co. (Ky. 1925), 270 S. W. 784.

Kansas Wheat Growers vs. Ast (1925), 234 Pac. 963.

Kansas Wheat Growers vs. Charlot (1925), 236 Pac. 657.

3. Contract invalid if obtained by threats of coercion.

Commonwealth vs. Riffitt (1912), 149 Ky. 300; 148 S. W. 48.

4. Contract invalid if secured through misrepresentation.

Kansas Wheat Growers Association vs. Vague (1925), 234 Pac. 964.

Wenatchee District Coöperative Association vs. Mohler, et al., 237 Pac. 300.

5. Contract cannot be evaded by giving crop to a relative.

Dark Tobacco Growers Association vs. Alexander (1925), 208 Ky. 572; 271 S. W. 677.

6. Relation of contract to crop mortgage.

a. *Mortgagee has prior claim to crop if he did not know of Association Contract.*

Kansas Wheat Growers vs. Lewis, 234 Pac. 962.

Tobacco Growers' Coöperative Association vs. Patterson.

Kansas Wheat Growers vs. Loehr, 234 Pac. 962.

b. *Association has prior claim to crop when mortgagee had full knowledge of the Contract.*

Kansas Wheat Growers vs. Ast, 234 Pac. 963.

Redford vs. Burley Tobacco Growers Coöperative Association, 266 S. W. 24.

7. Contract valid as against a landlord's lien.

Burley Tobacco Growers' Coöperative Association vs. Smith.

Oregon Growers Coöperative Association vs. Lentz (1923), 212 Pac. 811.

Tobacco Coöperative Association vs. Harvey (1925), 127 S. E. 545.

8. THIRD PARTIES MAY NOT ATTACK CONTRACT BETWEEN ASSOCIATION AND MEMBER AS ULTRA VIRES; AND NO ONE MAY ATTACK THE CONSTITUTIONALITY OF A LAW EXCEPT ONE WHO HAS BEEN DEPRIVED OF RIGHTS BY THE LAW.

Harrell vs. Cane Growers Coöperative Association (Ga. 1925), 126 S. E. 531.

Walsh vs. Columbus Rr. Co. (1900), 176 U. S. 469.

Grinnell vs. R. R. Co. (1880), 103 U. S. 739.

Northern Wisconsin Coöperative Tobacco Pool vs. Bekkedal (1923), 197 N. W. 936.

Owen Co. Burley Society vs. Brumback (1908), 128 Ky. 137; 107 S. W. 710.

9. ASSOCIATION HAS A RIGHT OF ACTION FOR RECOVERY OF DAMAGES AGAINST A THIRD PARTY WHO CAUSES MEMBER TO VIOLATE HIS CONTRACT.

Phez Co. vs. Salem Fruit Union, 201 Pac. 222.

10. ASSOCIATION MAY RECOVER EXCESS ADVANCES MADE TO MEMBERS.

Farmers Union Coöperative Shipping Association of Natoma vs. Schulte, 212 Pac. 670.

California Bean Growers Association vs. Williams, 255 Pac. 751.

California Raisin Growers Association vs. Abbot, 160 Cal. 601.

CHAPTER X

CONTROL

One of the puzzling and persistent problems of all industrial organization is that of control. In the field of corporate business we have a theory that control should be posited upon, and proportional to ownership of capital. In the early days of the joint-stock company, when ownership of a certain number of shares of stock indicated a definite contribution to the capital of an enterprise, and when there was no other method of indicating capital invested, the ownership of this stock carried full title to control.

With the development of an almost infinite variety of corporation securities, each presumably representing capital invested, and each carrying its own modicum of legal or technical rights of control, the simplicity of the old order vanished.

In addition to the inevitable conflicts among those groups contributing the capital of the corporation, the situation has been further complicated by the growth of a legion of new social, economic, and governmental institutions, each with its own claim to some sphere of control. Trade unions, institutes, manufacturers leagues, trade associations, and other forms of communities of interest, the Interstate Commerce Commission, Federal Reserve Board, Federal Trade Commission, and a vast array of other manifestations of modern economic group action have, each in turn, added new and complicated factors.

The large-scale centralized agricultural coöperatives, largely a post-war phenomenon, have fallen heir to many of these problems. In addition, they have contributed

their own new and novel complications. They possess a dual personality: they are political as well as economic institutions. Their line of development runs back through both categories. They have drawn their philosophy and their scheme of arrangements from both sources.

According to the written formula, both the philosophy and the control devices are very simple. In practice, various complexities have developed. In direct contradistinction to corporate practice, these coöperatives base their theory of control on the democratic formula, one man—one vote.[1] Capital invested in the enterprise presumably receives no consideration.[2]

The devices created for carrying out this theory of control have been described in Chapter III. They follow closely those of democratic government as developed in this country. The basic agency is the underlying membership which has three means of expressing its will: (1) the general membership meeting, (2) the postal referendum, and (3) the informal local.

The general membership meeting (provided a majority of the members are present, either in person, or by proxy) is practically a sovereign body within the Association. It may elect members of the Board of Directors, amend or repeal any of the by-laws or adopt additional ones, and transact such business as may properly come before it.

This is an attempted carry-over from the small, closely knit, local associations. It has had no significance whatever. Never have as many as one per cent of the members

[1] A few of these centralized coöperatives have deviated from this to the extent of allocating voting power on a basis of product delivered; but the cotton and tobacco coöperatives have adhered strictly to the democratic formula.

[2] This applies only to control of the overhead marketing organization. Subsidiary corporations, such as gins, warehouses, and compresses regularly follow the corporate practice of positing control on ownership of capital stock.

attended. With a membership counted in tens of thousands, scattered over a territory almost a thousand miles wide, with inadequate means of transportation in some sections; and with this annual meeting occurring in one of the busiest weeks of the entire cotton year, no other result could be expected.

The scheme of submitting proposed amendments of the by-laws, and other basic matters, to the members for a postal referendum has been little more effective. It is apparently impossible to get a majority of the members, or even half that many, to vote on any proposition. Certainly the most important matter submitted regularly to the general membership is the annual election of Board members. The following table of votes indicates the ineffectiveness of this device.

TABLE XIX

NUMBER OF VOTES BY DISTRICTS IN THE 1926 AND 1927 DIRECTORAL ELECTIONS. (THERE WERE PRESUMABLY ABOUT 2,500 MEMBERS IN EACH DISTRICT IN 1926, AND 1,000 IN 1927)

	1926	1927
District No. 1	116	102
District No. 2	336	119
District No. 3	137	104
District No. 4	81	126
District No. 5	233	237
District No. 6	235	118
District No. 7	149	163
District No. 8	176	137
District No. 9	449	342
District No. 10	229	232
District No. 11	266	130
District No. 12	161	364
District No. 13	344	201
District No. 14	170	216
District No. 15	102	140
District No. 16	151	142
District No. 17	182	205
District No. 18	459	371
District No. 19	397	295
District No. 20	143	75
Total	4,516	3,819
Total Membership Approximately	56,000	18,000

One reason for this lethargy on the part of the members, in selecting their representative on the Board, is lack of information. Many of the directoral districts are quite extensive, the three largest including twenty-seven counties each. Often the candidates are known to only a small minority of the members. Even if one of the candidates is standing for reëlection, a very few of his constituency will know or understand his position on issues that have come before the Board in the past, or that may face it in the future. Consequently, few members vote in these annual elctions, and those few are undoubtedly influenced more by the purely personal qualities of the candidates than by their attitudes on Association policies.

The informal local is the third method by which the membership may exert control. These organizations have their own officers who may attend all meetings of the Board of Directors, and act in an advisory capacity. They also provide a means for expression of membership will and desire through resolutions addressed to the Board.

So far, only about a dozen of these locals have been actively maintained. They had never been officially encouraged by the leaders of the Association until this year (1927-28). In fact, some of the ablest leaders of the movement have opposed all forms of local organization, on the ground that they would interfere with the development of a consistent body of policy. This attitude has limited effective membership control for the past six years.

On the other hand, there has been a persistent recurrence of the idea that the policy-making agencies of the Association should be more immediately sensitive to the will of the members. In response to this changing attitude on the part of the leaders, active informal locals are coming into existence throughout the State. As yet they are too young to have exhibited any marked influence on

policies. But it is significant that they are already beginning to make their influence felt in the councils of the Association. When a formal resolution from a strong local reaches the Board, it receives immediate attention. No one can say how far they may go in actual control, but potentialities appear to be great.

In addition to these three direct methods of membership expression, it is presumed that the Board Directors, due to the practice of annual elections, will also be immediately responsive to member demands.

Unquestionably, the men who planned and built the framework of the Association intended the Board to be the major control agency. This is what has actually occurred; but it has taken many years to make this control effective. During the first few years the Board was of necessity dominated by the official staff. Nor is this surprising. The members of the Board were cotton farmers having almost no acquaintance with the innumerable and intricate problems involved in the technical operation of a gigantic marketing agency. Few of them had any idea of how a modern business office is organized. Fewer, still, knew anything about the Cotton Trade. None had ever handled money in millions of dollars. Furthermore, the Board was in session only two days in each month.

On the other hand, the official staff included at least a small number of technical experts who were skilled in their own particular phases of the work. Inevitably the Board turned to them for advice and counsel. Inevitably they usurped most of the control functions.

During the past six years the Board has steadily improved in business ability and skill in handling its technical problems. This is largely due to the fact that many of the present members have had years of valuable training in this work. Of the present Board five members have served since the Association was organized; six others have served four years, and three others three years. A

majority of the members have been on the Board for three years or more.

As the Board has grown in experience and knowledge of its business, it has reasserted its authority. Today this authority is unchallenged. This does not mean that the members of the official staff do not exert an appreciable influence in their respective fields. It does mean that the Board has consciously and avowedly assumed all responsibility for conducting the affairs of the Association.

The Board requires every department of the technical organization to make a detailed monthly report of its activities. The heads of the more important departments (*e.g.* field service, sales and finance) are regularly called before the Board to explain their work, and to advise the Board on matters of policy. But the ultimate responsibility for all policies adopted rests with the Board.

The function of carrying out the policies and plans formulated by the Board is performed by the technical staff under the direction of the Executive Committee. This Committee of five members of the Board holds weekly meetings. Its principal function is to maintain a constant and minute check on the activities of the various departments. It has no policy-making powers except as these are delegated to it.

The American Cotton Growers Exchange

The autonomy of the Association today is being seriously challenged by an agency of its own making. This agency is the American Cotton Growers Exchange. The original Sapiro Plan contemplated an ultimate combination of the various state Associations into a central exchange. This was to coördinate the work and to standardize the practices of the Associations. It should also function as the agent of the state associations in the actual selling of their cotton. In short, Sapiro un-

doubtedly intended to concentrate all essential functions in this central exchange.

Even before the termination of the organization campaign in Texas, the leaders of the movement in this State met those from Oklahoma and Arkansas to take under consideration plans for such a central agency. These negotiations were prolonged for a period of two years, and ultimately included leaders from most of the state associations. The result was the creation of the American Cotton Growers Exchange with an original membership of eleven state associations, to which a twelfth was later added.[3]

The original plan contemplated an organization with certain functions delegated to it by the state associations. These state associations certainly did not intend to surrender any of their essential functions. In fact, the whole matter of just what functions would be delegated to the Exchange, and what would be retained by the state associations, was a subject of long and bitter controversy. This controversy still rages; and is apparently as far from amicable solution as when the original Exchange Agreement was formulated.

That agreement outlines in very broad and flexible terms the functions to be performed by the Exchange. The most substantial of these, as they stand at the end of five years, may be grouped under four main heads: (1) sales functions, (2) financial functions, (3) field service functions, (4) statistical functions.

In the matter of sales, the position of the Exchange is

[3] 1. Oklahoma Cotton Growers Association, 2. Texas Farm Bureau Cotton Association, 3. Arizona Pimacotton Growers, 4. North Carolina Cotton Coöperative Association, 5. Alabama Farm Bureau Cotton Association, 6. Arkansas Cotton Growers Coöperative Association. 7. Georgia Cotton Growers Coöperative Association, 8. South Carolina Cotton Growers Coöperative Association, 9. Louisiana Farm Bureau Cotton Association, 10. Mississippi Farm Bureau Cotton Association, 11. Tennessee Cotton Growers Association, 12. Missouri Cotton Growers Coöperative Association.

somewhat anomalous. It maintains a sales office, and does the actual selling for some of the smaller associations. On the other hand, all the larger state associations have consistently refused to surrender their sales. For these the Exchange maintains sales outlets, through its own offices or through contracts with private merchants, in all the principal markets of the world.[4] The Texas Association has even refused to make exclusive use of these outlets, preferring to maintain its own agencies in the important foreign markets which use large quantities of Texas cotton.[5]

The financial operations of the Exchange have been limited to arranging lines of credit with large Eastern banking groups, and to standardizing credit arrangements and devices for its member Associations. The actual contracts in all cases have been drawn between the individual Association and the credit agency. The Exchange merely acts as an intermediary in the negotiations. No attempt has ever been made to combine the resources of the various Associations for credit purposes.

As in the case of sales connections, the Texas Association has consistently ignored these financial services. Its credit needs have been so great, and its credit position so strong, that it has preferred to make its own financial contacts and arrangements. The field service work of the Exchange has centered about the problem of consolidating the experiences of the various Associations and standardizing their devices and practices.[6] Very creditable work has been done on these lines. The Exchange has also actively assisted some of the state association field serv-

[4] Rotterdam and Enschede, Holland; Copenhagen, Denmark; Lille and Havre, France; Milan, Italy; Zurich, Switzerland; Barcelona, Spain; Atlanta, Georgia; Charlotte and Greensboro, North Carolina; Spartanburg and Greenville, South Carolina; Boston, Massachusetts; Liverpool, England; Osaka, Japan; and Bremen, Germany.

[5] Boston, Bremen, and Liverpool.

[6] See Chapter VI.

ice departments, particularly during the re-sign-up campaigns.

Probably the Exchange function most strongly approved by the state associations is that concerned with market analyses and forecasting. The work is performed by a very able Statistical Department, which is attempting to give the Association sales offices reliable advice on the probable future trend of the market. This advice is based on a careful analysis of all the data available, and should be of tremendous assistance in determining sales policies.

This activity of the Exchange has met with the enthusiastic approval of the Texas Association, despite the fact that some of the advice given this year was very bad indeed.[7]

In addition to performing these four important functions, the Exchange maintains several minor departments, such as a legal department, a traffic department, and an insurance department, which were designed to aid the member associations in their particular lines of work. None of these have been of any appreciable value to the Texas Association.

The Exchange is controlled by a Board of Trustees composed of three representatives from each member association. This Board meets two or three times a year, on the call of the President. It presumably formulates all Exchange policies, within the compass of the Exchange Agreement. An executive committee, composed of one representative from each of the association delegations, directs the technical staff in carrying out these policies.

The costs of operating the Exchange are borne by the member associations. They are allocated annually on the

[7] In justice to the Statistical Department, it should be said that many of the most reliable cotton statisticians in the world made the same errors this year. The movements in cotton prices during the autumn of 1927 are hard to explain on any rational basis.

basis of the number of bales of cotton handled by each association, regardless of whether any of it is marketed through the Exchange sales offices.[8]

In 1927 the Exchange Agreement expired. A controversy had been brewing for years between the proponents of a powerful Exchange and the adherents of association autonomy. Under the circumstances, this conflict was inevitable. It is the direct outgrowth of two intrinsically diverse philosophies of the movement. It is a phase of the ancient conflict between unity and decentralization, which has run its course in every recorded instance of group action.

When viewed from a safe distance, the problem appears simple. It is merely a question of what is expected from this particular scheme of arrangements. If, the end contemplated is a better marketing agency, but clearly within the old rules of the game, then the autonomous state association, or probably an even smaller unit, is adequate. Such an agency can get a sufficient quantity of product to assure all possible economies in the operations involved in marketing cotton. It can secure all the advantages of accurate classing and pooling. With a large enough quantity of each particular type, it can attract the best buyers. It can borrow money as advantageously as a larger organization. It can handle many local problems more efficaciously than can a remote authority.

On the other hand, if the purpose in mind is some sort of effectual control over the general level of cotton prices, the state associations are not adequate. The problem of stabilizing prices cannot be solved by a dozen agencies constantly working at cross purposes. It involves the

[8] This cost to the Texas Association, amounting to approximately $70,000 annually, has been a matter of serious concern to the Board of Directors. Some of the members question the wisdom of this expenditure. If the Association does not find it advisable to use more of the services provided by the Exchange, it is hard to justify the continuation of this expense.

whole industry, and any set of devices to be commensurate with the situation must be coextensive with the industry.

When viewed at close range, the situation reveals all sorts of personal factors, and unexpected complications. Inevitably many of the men who hold by the philosophy of price control by an all-powerful central organization have gravitated to the Exchange staff. Their belief has become confirmed by personal interest, as well as by the failure of the independent associations to control cotton prices. Moreover, every state association has its own technical staff, most of whom are just as firmly convinced that any surrender of functions to the Exchange would be disastrous. Between these two extreme positions are ranged most of the coöperative leaders. Every shade of opinion exists in the Board of Directors of the Texas Association.

In the spring of 1926 the General Manager of the Exchange anticipated the expiration of the Exchange Agreement by presenting a new Agreement for the consideration of the Board of Trustees. This document drew the lines for a dominant Exchange. The vital function of sales, which has been so jealously guarded by the associations, was to be assumed by the Exchange. This proposal precipitated the conflict.

The arguments of the proponents are posited on three premises: (1) the economies of large scale business operations, (2) the necessity of some central authority sufficiently removed from the petty jealousies and particularisms of local situations to be able to see and deal with problems as a whole, and (3) the advisability and possibility of influencing the general level of cotton prices.

The arguments of the opponents usually run in terms of control. The sales department, as contemplated in this plan, is removed by at least four steps from effective member control. Such a situation is dangerous. It might be disastrous. Under the present scheme of arrangements this

most vital department is removed but one step from the underlying membership. The Association Board is elected directly by the cotton farmers. Its members are all farmers themselves, and have their own cotton in the pool. They employ their salesman, and supervise jealously his operations.[9]

The new Exchange Agreement was referred to the Boards of the state associations where it was promptly rejected. In order to save the Exchange from extinction, the old Agreement was continued for one year. In the meantime the whole matter is being earnestly studied. Various compromise schemes have been proposed. One of these is a plan to divide the cotton belt, with one central Exchange for the western section (including the Texas, Oklahoma, Arkansas, and New Mexico Associations), and one for the Eastern.

For the Texas Association the situation sums up to this: the Exchange can perform certain functions more efficiently than can the Association itself; on the other hand, the Association is not prepared to surrender its own direct and conclusive control over sales. No more vital question of control has ever faced the Association. The solution accepted by this and the Oklahoma Associations will undoubtedly determine the general lines of development for the movement in the South during many years to come.

[9] Manifestly, the arguments of the two groups are equally valid. The line of cleavage runs back to two diverse philosophies of social control. If the basic assumptions of those who advocate control by experts are accepted, the arguments of the powerful-exchange proponents are conclusive. On the other hand, if the assumptions of democratic control are granted, the arguments for autonomous state associations are unanswerable.

CHAPTER XI

THE CASE FOR COÖPERATION

THE questions are asked, times beyond counting, are the large-scale Cotton Coöperatives a success? have they made money for the farmers? will they last? will they displace the traditional system? can they exercise monopoly control to the detriment of the consumers? can they control production? can they fix prices? can they improve farming technique? can they improve the standard of life for the cotton farmers?

Before attempting to answer any of these it would be well to review briefly the situation under the traditional system—the situation which propounds the problems, and, to a great extent, sets the bounds for the coöperatives.

We may begin with the assumption that under the traditional system, cotton farming is the most poorly organized industry of its magnitude in America. This merely means that it fails to serve the ends of life which we would have served. It fails on so many counts that it is impossible to consider any but the fundamental ones.

In order to discuss the defects of the present organization we must have clearly in mind what we expect of it. This may be expressed in two simple statements: (1) an acceptable standard of living for the people engaged in the industry; and (2) a regular and adequate supply of cheap cotton. Obviously, one might quibble indefinitely over the terms acceptable and adequate. We are interested in the facts of life which any man who never heard of Ricardo or Rousseau may see and appreciate in every

sagging gate and unsightly farmhouse in the Cotton Kingdom.

We may further limit the field for consideration to the first of the above propositions. It is undoubtedly the more urgent of the two, and for the calculable future by far the more important.

The present organization fails notoriously in the first prerequisite of any industrial organization, namely, in providing an acceptable standard of living for the people engaged in the industry. If this is true, and it will hardly be denied by any one cognizant of the facts, one of two things should be done: either we should devise some scheme of arrangements which will provide it; or, in case that is proved to be impossible, we should junk the whole venture and do something which we can do more effectively.

It is unthinkable that the latter is the correct solution. The Southern States are incomparably the finest cotton country in the world. The British Government, and the Lancashire spinners have expended millions during the past twenty-five years in vain attempts to discover and develop areas to compete with our cotton farms. For a long time to come the chief supply of the "magic fleece" should and will come from Dixie. This being so, the problem for the coöperatives is clearly defined: to design and put into operation an economic policy which will permit an acceptable standard of living for the cotton farmer.

An acceptable standard of living in the modern world depends upon three things: (1) an adequate and regular money income; (2) the use of this income in securing from the market the proper kinds of goods and services; and (3) the transformation of these goods and services into the stuff of which life and living is fashioned.

The coöperatives are concerned only with the first of these: the securing of an adequate income; and the secur-

ing of a regular income. The latter is by far the more vital as events are shaping.

A fair degree of regularity of income is a *sine qua non* of any permanent improvement in rural conditions in the South. Without that, a vicious and disastrous credit system is inevitable. Utter lack of appreciation of the value of a dollar (which is one of the fundamental deficiencies of cotton farmers) is also inevitable. Inability to buy effectively is the direct result of irregularity of income—of unfamiliarity with the use of money. The constant draining of initiative and intelligence from the farms, and the growth of a shiftless, indolent, ignorant tenantry are results of the same evil. Initiative, intelligence, ability tend to go where they are recognized and consistently rewarded.

One might pass in review the whole miserable panorama of unpainted shacks, rain-gullied fields, straggling fences, rattletrap Fords, dirt, poverty, disease, drudgery and monotony that stretches for a thousand miles across the Cotton Belt, all attributable, directly or indirectly, to the same cause. True, there are favored localities where these conditions do not exist, or prevail to a lesser degree; but for a vast majority of communities it is an idle waste of words to talk of building a better life on such absurdly irregular incomes.

One typical case will serve to indicate the situation. Table XX tells the story of a Texas cotton farm through a period of sixteen years. The farm contained an hundred and sixty acres of black land. Forty acres were under cultivation in 1893. This was gradually increased to eighty acres in 1899, where it remained the last eleven years of the period. The farm family consisted of a father and mother, eight boys, and three girls.

Here was a typical Texas cotton farm, having about the average of equipment, implements, and work-stock, far above the average of labor, and more intelligent direc-

TABLE XX

RECORD OF A 160-ACRE COTTON FARM IN MENARD COUNTY, TEXAS, 1894-1909

Year	Number of Bales of Cotton	Average Price per Pound in Cents	Total Money Income in Dollars	Percentage of Income of Previous Year
1894	9	4.50	202.50	
1895	5	8.25	247.50	122
1896	5	7.00	184.03	75
1897	16	5.00	412.25	224
1898	15	4.60	405.37	91
1899	13	6.50	628.75	155
1900	51	6.50	1982.50	315
1901	23	7.00	1039.00	53
1902	19	8.50	1059.50	102
1903	25	9.75	1738.30	164
1904	23	8.35	1332.25	77
1905	16	9.75	1194.60	90
1906	28	9.60	1588.80	133
1907	7	10.00	350.00	22
1908	41	8.25	1832.57	575
1909	8	13.55	772.80	42

tion than any similar farm of which I know. The result? an income varying from $184.03 to over ten times that amount. Or, to use figures more fairly comparative, after the total of eighty acres was in cultivation (1899-1909) the income varied from $350.00 to $1982.50. It dropped in one year from $1588.80 to $350.00, then rebounded to the second highest figure of the period, $1832.57, only to fall again the following year to 42 per cent of that amount.

We may reduce the whole story to one figure if we are addicted to quoting averages. Considering the income of each year successively as 100, the average deviation of each year as compared to the previous one was 82 per cent.

Now the case would have been bad enough if this deviation had occurred with calculable regularity. How much more confusing to have no possible way even to guess what the next year might provide. The smallest

variation recorded in the above table was 2 per cent, between 1901 and 1902. The greatest was 495 per cent between 1907 and 1908, immediately preceded by one of 78 per cent and followed by one of 58 per cent.

What standards of living could one expect to find under such a system? What other industry in America could continue to operate under such circumstances? The American Locomotive Company is selected by one of our greatest authorities on corporate finance [1] as exemplifying the maximum of variability in income. And yet its earnings for the same period show a maximum variation of only 68 per cent (which is less than the average variation for this farm) and an average variation of 32.6 per cent. What would happen if the income of railway laborers, bricklayers, barbers, stockholders of the United States Steel Corporation, or of any other large group of citizens of this country should evince a tendency to violent irregularity even remotely approaching the one shown above? Would not every economist and every politician in the country demand a complete overhauling of the industrial machine?

And yet this industry of cotton farming, measured in terms of capital investment, labor employed, or value of output, ranks among the nation's first half dozen. And we stand supinely by and say, "Let George do it," George, in this case, being our old friend, Free Competition. Can Free Competition, in the generally accepted meaning of that term, solve the problem? It has had somewhat over a century in which to work its magic—and here we are!

The same condition of violent and unpredictable annual fluctuations, so apparent when the individual farm is taken as the unit of production, may be shown to exist when a unit even as large as a county is considered.

[1] A. S. Dewing, The Financial Policy of Corporations, p. 559.

UNIVERSITY COLLEGE

In 1924 the writer's home county, Travis, Texas, produced 44,148 bales of cotton; in 1925 it produced 3,306. Of our immediate neighbors to the south, Caldwell dropped from 50,471 bales to 4,713; Hays from 18,793 to 827; and Guadalupe from 41,900 to 730. To the north, Williamson (all-time prize cotton county of the world in 1920 with 157,663 bales; second largest producer in 1924) dropped from 104,290 to 16,439. In all, thirty-nine counties in Texas produced each less than half as much in 1925 as they did in 1924. Of these, twenty produced less than one-fourth as much as they did the previous year, and twelve, less than one-fifth as much. And it must be remembered that the crop of 1925 for the whole South was the second largest on record, and that the price declined sharply during the marketing season.

This means that some two hundred thousand cotton farmers in Texas realized less than half their incomes of the previous year; probably a hundred thousand, less than one-fifth. Both these numbers would certainly be doubled if we were considering the entire Cotton Kingdom.

On the other hand, forty-seven counties in Texas produced twenty-five per cent more cotton in 1925 than in 1924; and fourteen of these produced over twice as much.

The figures for 1926 are quite as arresting: the State produced over a million bales more than in any previous year. Thirty-seven counties produced over twice as much as in 1925; twenty-two of these produced over three times as much; and eleven of these over five times as much as they did in 1925.

On the other hand, eighty-one counties, of one hundred and eighty-eight reporting cotton production, produced less in 1926 than they did the previous year; thirty of these produced twenty-five per cent less, and eleven of these over fifty per cent less than they did in 1925.

Assuming the production of each year successively to be 100 per cent, the average deviation of Travis County during the past ten years has been 133.5 per cent; of Hays County 110.7 per cent; of Williamson County 156.4 per cent; and of Nueces County 283.3 per cent.

Some statistician skilled in the art of computing averages might combine these figures in some way and prove to the farmers of Travis and Caldwell and Nueces that conditions, "on the whole," "by and large," "other things being equal," and "taken all together," "tend to be" satisfactory!

George Peck once observed that Mexico has the most stable government in the world. Here she is, sitting on the very edge of the red abyss of anarchy for a whole century, her feet laved in the turbid waters of revolution swirling just beneath. And yet—here she is. If that is not stability, where can it be found! By the same token, cotton farming is the most stable industry in the United States. Do we not go right ahead operating our industry, producing our cotton, under conditions that would wreck any other industry in the world?

It is the same old story of the farm in Menard County repeated and repeated. The farmer may buy good mules, or Fordsons, and the best of equipment. He may carefully select his planting seed according to the advice and valuable experiments of the Agricultural College. He may work hard, early and late, twelve months in the year. The rains come; or they do not come. So also do boll weevils—or grasshoppers—or army worms—or sandstorms. He makes an abundant crop—or a mediocre one —or none. So does Oklahoma—Mississippi—South Carolina. The monsoons in India are exactly right—or exactly wrong. The Indian has a good harvest—or none. He normally takes over half of England's textiles. England takes the major part of the Texas cotton crop. The monsoons

are propitious; the Indian demands calico; Lancashire demands cotton. The farmer gets forty cents a pound—or twelve—or four and a half. And whether he gets forty cents for a bale-to-the-acre crop, or four and a half cents for one a tenth as large, depends upon the weather—and Oklahoma—and the Indian monsoon—and the boll weevil.

It is very poor consolation to a cotton farmer to know that the average price of cotton is twenty-five cents a pound if he has none to sell, and his mules and plows are mortgaged. Unless he be a rare individual, with a penchant for vicarious sentiment, he will derive little satisfaction from the knowledge that the failure of his crop has raised the price for the Carolina grower. Doubtless he should appreciate the fact that his misfortune has increased the total income of all the cotton farmers and so has fattened the average.

What the cotton farmer needs most, and needs most desperately, is not a good average income as a group (though it is sufficiently obvious that he does need that), but a good regular income as an individual.

Averages will not liquidate mortgages and they will not pay vendor's lien notes and they will not buy groceries. Unless we can devise some scheme for having the mortgages, and the notes, and the groceries averaged, too!

Here is the problem for the coöperatives. Cotton farming is one of the most important industries in America. We have matchless natural advantages. In fact, our comparative superiority over the remainder of the world is probably greater in this field than in any other of like magnitude. And yet the people engaged in the industry actually realize none of the advantages of their strategic position. As a matter of fact, they undoubtedly receive a smaller proportionate part of the good things of life than any other comparable group in the United States.

This indicates that the present scheme of arrangements

under which the industry operates is completely out of adjustment with the world as now organized.

For half a century we have carried the tradition of the Independent Farmer. It is becoming an Old Man of the Sea to us. We still talk of the farmer who "does his own work and lives his life as seems him best." As a matter of fact, under the commercial one-crop system his independence has vanished with the frontier. Under pioneer conditions, when farming was organized primarily to make a living and cotton was produced as a "money crop," this independence was a real and tangible thing. Under such an order the industry as a whole required little conscious organization. The principal problems were problems of production. The focal point of these problems was the individual farm.

The viewpoints and devices of that system have been largely carried over into an entirely different order. Today the problems of the cotton farmer are not those of producing a living, but of prices; the prices he can get for his cotton; the prices he must pay for what he buys. He is still interested in the problem of production but the incidence of that problem has shifted completely. Improving methods and technique may give him a bountiful harvest; but that very result may be the means of driving his standard of living still farther down the scale.

Those old farmers of the seventeenth century who conceived the idea of setting aside a day of thanksgiving in gratitude for a bountiful harvest doubtless would be astonished if they could know what tragic consequences a bountiful harvest may have today. In this connection one illuminating figure might be quoted: the 1920-21 cotton crop of 13,440,000 bales sold for $933,658,000 or $629,689,000 less than the 1923-24 crop of only 10,281,000 bales. A decrease of 24 per cent in the size of the crop resulted in an increase of 67 per cent in the money income of the farmer! It is easy to understand the logic of the

Southern town which erected a colossal statue to the boll weevil.[2]

The chief problem securing an acceptable standard of living for the cotton farmer, then, is the domestication of production. Under the present organization it is either actually or potentially running wild. Improvements in soil fertilization, in methods of combating the boll weevil, in types of cotton, in machinery, and in technique of production all fall short if they merely result in further disorganization of price relationships.

We of the Cotton Kingdom have always held by the classical economic doctrines: (1) An improvement in technique would result in an economic advantage to the individual employing it. (2) A superior type of product would command a premium on the market. (3) As technical advancement reduces the cost of production, the slothful, ignorant, and backward producer would be driven from the field by his more progressive, more intelligent competitor. (4) And finally, the economic reward to the people in the various industries would be approximately equalized by shifting from one to another as the self-interest of the individuals directed.

But these are exactly the results which do not eventuate in cotton farming. In some inexplicable way the advantages of Free Competition have failed to materialize. An improvement in technique may enhance the income of an individual farmer, provided none, or a very few, of his neighbors employ the same methods. If they

[2] If further proof is needed to show the curse of plenty, the statistics of the past three years might well be studied. In 1924-25 the cotton farmers of the South produced 13,627,936 bales of cotton. They sold it for $1,730,747,872. In 1925-26 they produced 16,103,679 bales; and sold it for $1,465,434,789. In 1926-27 they produced 17,977,374; and sold it for $1,120,889,268. As compared to the farmers of 1924-25, those of 1926-27 produced 32 per cent more cotton, and sold it for 36 per cent less money. (These figures on prices are taken from the United States Government's Estimated Prices obtained by Producers. While they are not entirely accurate, they are sufficiently so for the purpose.)

do, the odds are that all of them will lose, since the decrease in prices resulting from any noticeable increase in production will almost inevitably be greater than the saving in cost of production.

Neither does the production of a superior fiber insure the farmer a differential price commensurate with its spinning value. In fact the experience of every investigator during the past fifteen years has been that superior grades and staples receive almost no recognition in the primary cotton markets.

As technical advancement reduces the cost of production, the marginal and submarginal producers are not driven from the field. They continue to produce cotton. The difference is made up by a lowered standard of living. This indicates that cotton farmers are relatively immobile. Their equipment, their farms, and their whole life and training keep them growing cotton when this undoubtedly means a life of consistently declining standards. Unfortunately there are no bankruptcy courts to liquidate the assets and close out the businesses of patently failing cotton farmers.

As to the other expected blessing of a beneficent system of Free Competition, the equalizing of the incomes of individuals in various industries, one has only to compare the incomes of cotton farmers with those of other groups in this country to see that our competitive order has gone all askew in cotton growing.

If this is a fair statement of the case, the present organization of the cotton farming industry means (1) an utterly inadequate and hopelessly irregular income, with all its attendant evils of poverty, ignorance, peonage, and a constant draining off of the more intelligent members of the farming community; and (2) a situation which makes improvement in technique of production of very dubious value to the farmer. What can be done to ameliorate these conditions?

So many proposals and panaceas have been suggested, or actually tried, during the past half century that it seems quite strange that we have not hit upon the correct solution. The real explanation lies in the fact that we have always treated the symptom and never the disease. Some of our agricultural leaders have thought that the real difficulty lay with our credit system. So the Federal Land Bank System and the Intermediate Credits Bank System were created, and the Federal Reserve Banks were allowed to give agricultural paper important rediscount preferences. None of these have been in operation long enough to allow of any statistical estimate of their value; but even their most ardent proponents would not contend that they are striking at the root of the matter.

Others have argued that we should diversify. Undoubtedly, there is some value in the suggestion, if by diversification otherwise idle land and labor may be used, or some now used in cotton growing turned to more lucrative uses. But for the major portion of the Cotton Belt this has very limited applicability. The proposal, that agriculture turn back the pages a hundred years to rebuild the self-sufficient order of frontier days, is to repudiate the whole trend of modern industry. The development of commercial agriculture, and the specialization of large areas in the production of certain crops have enormously increased the productiveness of American agriculture. For the principal cotton areas, as for instance, the Black Waxy Prairie of Texas, any large-scale diversification would represent a distinct economic loss. In such areas cotton farming will and should remain the principal industry. But so long as this is true the only way to secure an acceptable standard of living for the people engaged in the industry is by some form of organization which can maintain the proper price relationships between cotton and those commodities which the farmer

must buy. It is not a question of diversification; it is a question of industrial control.

Another suggestion for improving the economic situation of the cotton farmer is the development of a better technique of cotton farming. The Dallas (Texas) News, with the assistance of the State Agricultural College, has recently conducted a "More Cotton on Fewer Acres" campaign. The results of their second year's efforts (1925-26) are quite startling. Farmers in all parts of the State enrolled for the contest. Each was allowed to enter five acres of cotton. The land was not to be irrigated and the cotton was to be of upland variety. The farmer who won first prize, G. Mont Adams of Smith County, produced over sixteen bales on his five acres. This is something over fourteen times the average production of Texas for this year! Many other of the contestants produced from ten to fifteen bales. Of course, this is a most laudable work, and ought to lead to a tremendous improvement of life on the cotton farms. But—just suppose a third, or even a fourth, of the cotton farmers of the South should apply the improved methods developed in these experiments under the traditional organization of the industry—what would happen to the price of cotton? We have never faced the problem of selling twenty-five or even twenty million bales. But with a conjuncture of favorable growing conditions, the present huge acreage, and even a probable improvement in technique, we would have to face it. It is not impossible for next year. The specter of a huge over-production rides on every rain cloud that comes in from the Gulf.

Still another attempt to improve the economic position of the farmer is the promotion of uniform-type cotton communities. This movement has been promoted by the Agricultural and Mechanical College, the Pure-Seed Breeders Association, and more recently by the Texas

Cotton Committee. It has been functioning long enough for certain major trends to appear. Probably the most notable work has been done in Collin County. Through the persistent efforts of their county agricultural agent, and a committee of intelligent farmers, several hundred cotton growers were induced to plant an improved, uniform variety of cotton. As a result Collin County cotton began to command a substantial premium in the local market; at one time selling from five to eight dollars a bale above that from adjacent communities. But, immediately cotton began to flow into McKinney from all surrounding communities. The local buyers made no distinction. The farmers who had refused to adopt the improved variety got all the advantages of the improved market. Even some of those who had promoted the movement began to plant alternate rows to "half-and-half," in order to get the heavier production and larger turnout of the shorter variety.[3] The inevitable result has been a loss of the premiums.

Under the traditional scheme the whole movement is destined to gradual extinction. It has nothing to offer.

Many other suggestions have been made from time to time. All of them seem to fail to sense the underlying difficulty—the present maladjusted organization of the industry. No improvement of any significance can come so long as the present scheme of arrangements prevails. The first thing the cotton farmer must do is to give up a measure of his religiously treasured and dearly bought independence. To go back to a self-sufficient frontier agriculture is impossible. To retain the present industrial anarchy in a closely coördinated, highly centralized, large-scale economic order, is downright folly. The only thing

[3] All of these farmers who have taken unfair advantage of the situation created by their neighbors are, in the picturesque language of the day, designated "bootleggers." The economic variety is apparently quite as ubiquitous as the Volsteadian variety!

he can do is to assume the responsibility of consciously organizing his industry with the purpose of regulating production and price. This plan is damned as Utopian, radical, dangerous, illegal, and utterly impossible. Nevertheless, it is the only way.

The one agency in existence today which can handle this program is the large-scale coöperative. But it is not the work of twelve independent, autonomous associations working at cross purposes. They must be federated, or consolidated into one strong central agency. As they stand today some of them have done excellent work. The Texas Association in particular has performed some half dozen tasks with notable energy and intelligence. It is attacking its problems in a fearless and resolute fashion. It has trained an excellent corps of technicians. It has gone far in the task of developing a new mental attitude among Texas cotton farmers. It has the basic organization, and is developing the machinery for the larger task ahead—the task of reorganizing the cotton growing industry on entirely new lines. Within the old rules of the game it has achieved remarkable results. With its direct sales, its production credit program, its coöperative gins, and its pure-seed program it is changing those rules. But the major problem is one of industrial control; and the agency which would solve that problem must be coextensive with the industry. Such an agency may be developed by a closer combination of the existing state associations.

Such an agency is by no means a novel expedient. It has a long line of development running through our industrial history. Probably the closest parallels can be drawn from certain coöperative milk producers associations, and the California Citrus Growers Exchange. To make effective a new system for the cotton industry it will have to enroll most of the producers. Then it must frankly assume responsibility for controlling the industry. This control will not only include "transporting,

warehousing, insuring, grading, pooling, and selling" the cotton (as now putatively handled by the coöperatives) but must also include the much more fundamental functions of determining the price policy for the whole industry, and of promulgating a production program in harmony with it.

This expansion of functions and powers will create two groups of problems. These may be called (1) the internal problems of organization and control; and (2) the problems of foreign relations—those growing out of the friction at the points of contact with the outside world. These are not new types of problems. The packing industry, the steel industry, the petroleum industry, and all others which are organized on industrial lines, face them in one form or another. Let us see the forms in which they may be expected to appear in this proposed control of the cotton industry.

Of the major problems of internal organization and control we may distinguish rather clearly at least three which must immediately be faced. The first is that of securing the approval and support of the farmers. This is not only first chronologically, but also first in importance and in difficulty of solution. Without the enthusiastic and determined support of a large majority of the cotton farmers, the machinery cannot perform its necessary functions. There are at least three circumstances which make the securing of such support difficult. (1) There is the ignorance of the farmers themselves. At least half of them are for all practical purposes illiterate. They do not read newspapers. They have had little touch with the outside world. They have had no adequate business training. They have no conception of problems affecting the whole industry. In fact, they never think of cotton farming as an industry at all. Consequently, an attempt to win their steadfast adherence to any plan for organizing and controlling the industry as a unit will

meet its first test in the problem of "getting the idea across" to them. Some devices for making the plan understandable will have to be created.

(2) There is the deeply ingrained human trait of preferring the known and traditional to the new and unfamiliar. The strength of this is without doubt greatest among the ignorant and inexperienced. Any attempt to devise, and put into effective use, a new schematic arrangement will meet a vast opposition from this unreasoned and unthinking fear of the unknown. After all, inertia is a dominant human characteristic.

(3) There is the timeworn, outgrown, but still highly-respected tradition of the independent farmer, standing as an effective bar to any proposal for consciously organizing the cotton farming industry. Until the individual farmer is willing to surrender a part of his so-called independence no effectual control of the industry is possible. This will require long and careful education. The present coöperatives have done, and are doing, valuable work along this line.

The second great problem the organization will encounter is that of securing competent leaders. This is always one of the most difficult, not only for coöperatives, but for all other forms of group activity as well. In democratic government, and in those phases of social and industrial organizations patterned after it (for example, churches, lodges, trade unions, coöperatives) the selection of leaders is determined by popular vote. In most cases of industrial activity which are organized under business control it is left to blind chance, sometimes called the law of natural selection. The ownership of property, the accident of birth, a fortuitous conjuncture of circumstances, social and other relationships, and abilities of a certain nature determine the personnel of the controlling group.

The line of cleavage here usually runs in terms of the

profit motive against the salary motive. One economist has said, "A dollar of profits will always buy more services than a dollar of salary." In answer to this contention it is sufficient to note that there is now going forward a cumulative process of divorcing profits from industrial control. More and more the production manager, shop foreman, traffic manager, sales manager, construction engineer, and all technical experts are becoming salaried officials. Only in the financial phases of business is the profit motive relied on to any appreciable extent and even here the salaried lawyer, engineer, and technician are assuming important rôles. In other words, the business world is constantly finding it expedient to appeal to other than profit motives.

Consequently, the leaders may be selected by the present coöperative method of democratic election, and be remunerated for their services by adequate salaries. This method of selection need not necessarily mean a rigid adherence to the principle of "one man one vote." In some coöperatives, voting power, within strict limitations, is predicated upon deliveries by the members. Some such deviation from the democratic principle may be necessary to secure the support of the larger producers. In any event this would not vitiate whatever virtue the democratic method of selection may have, since there are relatively few large cotton growers. And if they should all agree on a common candidate or plan of action (which is improbable) they could be outvoted a hundred to one by the small producers. Manifestly, this does not mean that the larger producer will not have an influence in the selection of leaders quite out of proportion to his deliveries. Wherever he is the influential man in his community, as is often the case, he will doubtless have much influence in selecting the representatives and determining policies of the group.

This consideration of the method of selecting the group

of leaders who will determine questions of policy omits the equally important problem of the availability of able leaders. It is often stated that it would be impossible to find leaders equipped and trained to handle delicate and dangerous decisions, such as the determination of the amount of cotton to be produced. A sufficient answer is that these functions are being performed now. With this difference, that under the traditional system of organization and control they are performed helter-skelter by each individual in the industry. The result is about what one would expect if each individual in the Ford factories had the power to determine how long he would work each day, how many valves, or nuts, or thumb tacks he would turn out, and what price he would charge the trade for his output.

Certainly a conscious and responsible regulation of production, price, and possibly even of the technique of farming and the type of product grown, by a small group of the most intelligent men in the industry, should give better results than the traditional industrial anarchy. There is not a situation which the proposed control would have to meet which is not met regularly. The significant fact is that the most difficult of the problems are handled today by the less intelligent and inadequately trained, while under a large-scale control, they might be handled by the most intelligent.

Another problem connected with the securing of efficient leadership is the danger of building up a small controlling group with interests opposed to those of the great body of producers. Two cases of this within the recent past emphasize the danger. The Federal Trade Commission's report on the tobacco trade points out such a condition in the directorate of the Tri-State Tobacco Growers Coöperative Association. The decision of the Interstate Commerce Commission in the Van Sweringen Merger Cases indicates the same condition in the inter-

locking directorates of the various railroad companies involved.

The large number of subsidiary activities which may be carried on by the coöperative would make it peculiarly subject to this danger. Production credit corporations, warehouses, compresses, insurance companies, gins, fertilizer companies, pure-seed associations—all furnish temptations for the director who would take advantage of his position of trust and responsibility for private profit. It might be desirable to deny the right of engaging in such activities to members of the board of directors.

A third basic problem facing the coöperative is that of determining its price policy. There are at least three angles to this problem: (1) the determination of the basic price at which the coöperative will sell its cotton; (2) the formulation of a production program in harmony with this price policy; (3) some method of making this program bear directly upon the individual farmer.

In determining the price policy for the coöperative, the body which makes the decision must have access to all relevant statistical data. It must have a grasp of the whole cotton situation, both as to demand and supply. Careful studies will have to be made of the effect of its price policy on other producing areas of the world, and on production by non-members in this country. It must be ready at any time to change its basic price when conditions render it necessary. Since we shall continue to produce for the calculable future a vast export surplus of cotton, our price must be carefully adjusted so that we will not unduly extend competing areas. A real danger to the association exists at this point. Undoubtedly it could maintain a disproportionately high price for several years; ultimately it would be ruined.

The experience of the Interstate Milk Producers Association is illuminating. In 1923 they set their basic price too high. For a few months their members enjoyed

unwonted prosperity. Then milk began to flow into Philadelphia. Carloads of cream came from far-distant Saint Paul and Minneapolis. The board of directors realized their mistake, cut the price of fluid milk, and forced their members to go through a painful period of readjustment. But they learned their lesson. Not once since that time have they set their prices high enough to invite disastrous outside competition.

The case of cotton is more difficult. If the price is set too high for a number of years and other competing areas are allowed to be brought into production, it will be more difficult to drive them from the field. This fact would have to be kept constantly in mind by the board, to offset the persistent demand for higher prices from the membership.

There also would be the problem of the non-member producer in this country. Under any imaginable set of conditions there would be an appreciable number of farmers who would want all the benefits to be derived from a stabilization of the industry, but who would refuse to carry their share of the burdens. There are scabs among cotton farmers as well as among labor and industrial groups. There would always be a measurable amount of actual and potential competition from this source to be reckoned with.

When the basic price has been determined it will be necessary for the coöperative to formulate a production program in harmony with it. This presents two difficulties. (1) It is impossible to tell beforehand just how much cotton the world will take at a predetermined price. Since it is also impossible to control production with any degree of accuracy, the coöperative must have the facilities and the willingness to hold over such part of the crop as cannot be sold within the year. (2) The coöperative must be able to make its production program bear directly upon the individual farmer. All previous attempts at price con-

trol have failed on this point. One such attempt was made about 1905, and another in 1910-13. In both cases the leaders failed to appreciate the relation of the production program to the price policy. They depended upon persuasion and education to effect the proper control of production.

In the spring of 1926 it would have been a simple matter to convince any intelligent farmer that it would be financially beneficial to the whole South to restrict production for that year. The United States Department of Agriculture in its first crop forecasts said as much. Hardly a week passed without such a pronouncement by some representative cotton group. In the early months of the year December futures were quoted three cents below spot prices. This in itself was an eloquent commentary on conditions. The farmers understood these shadows of coming events. But so long as it was to the interest of each farmer as an individual to raise all the cotton he possibly could, it was quite impossible to get anything constructive done about it. So long as practically every farmer in the South is in debt, and has his tools and mules, and often his crop and land mortgaged, he will continue to produce cotton. It is the cash crop *par excellence*. Only as the situation can be brought home to the individual in some tangible form is any rational production program possible.

The device used by the Interstate Milk Producers Association is quite interesting. It probably could not be carried over intact into the cotton coöperative. It does, however, furnish an excellent example of a working method by which the regulation of production may be made of individual concern. Every producer in the Association is allotted a basic quantity of milk, determined by his average production during the three fall months. He is then told that the coöperative will accept from him this quantity at the basic fluid milk price. He can deliver as

much more as he desires, but at a sharply reduced price. He is told that this is necessary because his surplus quantity of milk must go into the manufacture of such by-products as condensed milk, milk powders, ice cream, cheese, and candy.

The effect of this device on the stabilization of milk production in the Philadelphia milk shed is remarkable. Ten years ago the spring and summer flood of milk regularly caused a glut in the market with consequent crash in prices, waste of much of the surplus, and seasonal rush into the manufacturing of milk products. This seasonal variation in supply amounted to thirty or forty per cent. Last year this was reduced to five per cent, with the result that the price of fluid milk in the Philadelphia market did not have to be changed at all.

The control of cotton production could not be regulated with any such precision. It is subject to too many exigencies of weather, insect pests, and other hazards. But if the coöperative cannot make the stabilization of production a matter of moment to the individual farmer it will meet an insuperable difficulty.

Aside from these problems of organization and control the coöperative will have innumerable others of a technical nature. Doubtless any of the present managers of cotton coöperative could name offhand at least a thousand. But these are problems of operation and can be solved only as they appear. The success with which they can be handled will depend primarily upon the type of men who are in control. No set of arrangements has yet been devised that will automatically adjust an industry. Even such a beautiful scheme of contrivances as that employed by the Interstate Milk Producers Association or the United States Steel Corporation must have its Balderston or its Gary. In fact the integrity, honesty, intelligence and industry of the men in control will in large measure determine its success.

The first problem of foreign relations which the coöperative must face is the legality of its existence and operations. No one knows just how far it may go in the matter of stabilizing prices, or in regulating production, without running afoul the Anti-Trust Laws. No one can answer that question but the United States Supreme Court. Unfortunately, our statisticians have not derived any formula by which the decisions of that body may be accurately prognosticated. Consequently, the coöperative will have to proceed with the best legal light it can obtain, and modify its program as required by the Court; unless the basis for the Court decisions can itself be modified.

Another problem arising out of the relationships of the coöperative to the outside world has already been discussed in the question of price policy and its effect on competing foreign areas and non-member growers in this country. With the present national organization of the world, the coöperative will simply have to meet as best it may the competition of producers in foreign countries. Its price policy will have to be formulated with this fact constantly to the fore. If any competing area is developed which can beat us out in the markets of the world, the cotton farming industry of America will face a very unpleasant readjustment whether we have this type of organization or another.

The problem of the non-member grower is a very puzzling one. There does not seem to be any satisfactory solution in our industrial experience. Every trade union has to meet such a problem constantly. Early American church history furnishes some interesting parallels. The Puritans of Massachusetts considered the matter solved when they chased Roger Williams over the line into Rhode Island. Trade unions have often resorted to similar tactics to eliminate non-member competition. Governments have even resorted to the pillory and the gallows

to indicate the desirability of a proper amount of conformity to the established order.

Under our present laws it would doubtless be impossible to compel non-members to "attend upon the ordinances and support the institutions" of the coöperative. With our present fetish of personal liberty it would be impossible to prevent his securing, gratis, all the benefits obtainable through a better organization of the industry. So there is nothing to be done about it. Of course, social pressure may be, and doubtless will be, exerted to force him to conform, but no direct action seems practicable at present.

As a matter of fact, the non-member may serve a very useful purpose. If he is an intelligent producer he may act as a rather delicate barometer, indicating when the price policy is getting out of hand. He will indubitably respond more quickly and more accurately to the stimulus of an unduly high price level than will any of our present foreign competitors.

Another fundamental problem in this category is the relation of the coöperative to the cotton milling industry and to the Trade. The spinners have suffered from irregularities of cotton production only less than farmers themselves. If they could be assured of a steady flow of American cotton, exempt from violent price fluctuations, they would actively support the coöperatives.

Between the farmer and the spinner there has grown up a long chain of infinitely complex and delicate devices known collectively as The Trade, designed to relieve the farmer of his cotton and the spinner of his risks. It is difficult to say just what the relation of the coöperative to the Trade should be. Many necessary functions are performed by this vast machinery of local buyers, merchants, factors, exporters, spot markets, and futures exchanges. Some of these will be taken over entirely by the coöperatives. Some of them may better be handled under

the present scheme, while others will require various modifications. This process of superseding in part, and of adapting and modifying in part, the present marketing machinery will in any event be a continuing one. Its course cannot be minutely delineated until all the facts are in.

There will undoubtedly be scores of other problems of foreign relationships to be handled from time to time. The three indicated above are merely those which recent coöperative experiences have shown to be basic. The essential problem is to create machinery through which these and others of similar nature may be regularly and readily brought up for consideration and action. This may be done by providing a board of directors with the proper powers and personnel. The spinners, the Trade, and the general public should certainly be represented on this board, though the producers should retain control, and should frankly assume all responsibility in the operation of the industry. The representatives of the allied industries and of the public would sit in advisory capacity.

This scheme of organization and control has its dangers. It is possible that a strongly entrenched monopoly control might be created which would be able to perpetuate itself, and would operate the industry in such a way as to again fail to serve the ends of life. This might show itself in the form of an undue restriction of production and an unwarranted inflation of cotton prices. This could hardly occur, however, with an active non-member group in this country, and the competition of other producing areas, as an imminent threat.

But even if it should be admitted that at some hazy future time this centralized organization of the industry might become dangerously strong, might even be able to force the community to stand and deliver (though cer-

tainly this suggestion encroaches upon the domain of romance) the advantages to be gained are so substantial, and so vital to some ten millions of our people, that the experiment is eminently worth while.

The chief advantages to be expected from such a form of organization and control may be briefly stated as follows:

(1) The substitution of a purposeful, responsible, intelligent control for the present haphazard, irresponsible, and notoriously unintelligent one.

(2) A regular flow of cotton into the Trade at a relatively stable price level.

(3) The stabilization of incomes to the cotton farmer.

(4) The economies of large-scale handling of such problems as ginning, warehousing, insuring, grading, transporting, financing, and selling; developing of techniques and types of products; and buying of fertilizers, poisons, improved seeds, and machinery.

(5) An improved method of educating the farmer, and of getting to him all available information relative to his industry.

The first three fall within the province of the central agency. They cannot possibly be secured by autonomous state or regional associations. The last two offer legitimate functions for the present state organizations. One of the most harassing problems of the immediate future is properly to delimit the fields of action for these two agencies.

The Texas Association has proved the case for a coöperative solution of most of the problems listed in number 4. True, it has made some mistakes—has even blundered occasionally. But, it is going forward steadily, improving its technique, and laying the foundations for a new economic order. It has an honest and courageous Board of Directors; an intelligent and increasingly effi-

cient staff. Within the strict limitations imposed by the traditional economic structure and the nature of the Association, it has made notable progress.

But the main task remains. If cotton growing is to be brought into line with the modern industrial world it must be organized on industrial lines. The old devices will not serve. Neither will the independent state associations. A new scheme of arrangements must be developed. This is the task for a centralized coöperative.

APPENDIX A

Association Agreement of the Texas Farm Bureau Cotton Growers' Coöperative Marketing Association

The undersigned propose to organize a non-profit association, without capital stock, under the laws of the State of Texas for the purpose of promoting, fostering and encouraging the business of producing and marketing cotton coöperatively; for reducing speculation; for stabilizing the cotton markets; for coöperatively and collectively handling the problems of cotton growers; and for other pertinent purposes.

We, the undersigned, in consideration of the premises and of our mutual undertakings and of the agreement of each and every other party hereto, do hereby agree as follows, each for himself and collectively for the express benefit of and as the Association to be organized:

1. We will become members of the Texas Farm Bureau Cotton Growers' Coöperative Marketing Association, a non-profit association, without capital stock, to be organized under the laws of the State of Texas.

2. The Association may include in its membership any cotton grower in Texas, or the landlord or tenant or lessor or lessee of land in Texas on which cotton is grown, provided the landlord or lessor receives all or part of the rental in cotton.

3. The affairs of the Association shall be controlled by a Board of twenty-three Directors, and the office of the Association shall be at Dallas.

4. The members shall elect twenty Directors from among members actually residing and growing cotton in the districts here specified.

No. 1.—Fannin, Lamar, Delta, Red River, Bowie.

No. 2.—Hunt, Hopkins, Rains, Wood, Franklin, Titus, Morris, Cass, Marion, Harrison, Gregg, Upshur, Camp.

No. 3.—Grayson, Collin, Dallas.
No. 4.—Smith, Rusk, Panola, Shelby, San Augustine, Nacogdoches, Cherokee, Anderson.
No. 5.—Van Zandt, Henderson, Navarro, Freestone.
No. 6.—Kaufman, Ellis.
No. 7.—Houston, Angelina, Polk, Trinity, Madison, Walker, San Jacinto, Montgomery, Grimes, Brazos, Robertson, Harris, Waller.
No. 8.—Leon, Limestone, Falls.
No. 9.—Coryell, McLennan.
No. 10.—Johnson, Hill, Hood, Somervell, Bosque, Erath, Hamilton, Comanche.
No. 11.—Wichita, Archer, Clay, Montague, Cooke, Throckmorton, Jack, Young, Wise, Denton, Shackelford, Stephens, Parker, Palo Pinto, Tarrant, Callahan, Eastland.
No. 12.—Collingsworth, Hall, Childress, Hardeman, Wilbarger, Cottle, Foard, Knox, Baylor, Haskell, Jones.
No. 13.—Lubbock, Crosby, Dickens, King, Kent, Stonewall, Scurry, Fisher, Howard, Mitchell, Nolan, Taylor.
No. 14.—Runnells, Coleman, Brown, Mills, Lampasas, Burnet, San Saba, McCulloch, Concho.
No. 15.—Bell, Williamson, Milam.
No. 16.—Burleson, Lee, Washington, Austin, Fayette, Bastrop, Gonzales.
No. 17.—Travis, Hays, Caldwell, Comal, Guadalupe.
No. 18.—Colorado, Lavaca, Wharton, Fort Bend, Brazoria, Matagorda, Calhoun, Victoria, Jackson.
No. 19.—Bexar, Medina, Wilson, DeWitt, Goliad, Karnes, Atascosa, Frio.
No. 20.—Live Oak, Bee, Refugio, San Patricio, Nueces, Jim Wells, Duval, Kleberg, Willacy, Cameron.

Counties not named here, but which now or hereafter may have any membership producing cotton, shall be included in the nearest district as the Board of Directors may decide.

Three Directors shall be persons nominated in writing, one each by the Governor of Texas, the President of the A. & M.

College and the President of the Texas Farm Bureau Federation, and when elected they shall have full authority as Directors, representing primarily the interests of the general public in the conduct of the Association.

5. The members of each district shall meet annually for a primary election, to be held in the district and conducted as, where and when specified by the Directors and shall select one name in each district to be presented as the nominee to represent each district. Such nominees shall be elected as Directors at the general meeting.

If unable to attend, the members may vote at such primary meeting by mail, on a signed ballot prepared under direction of the Board of Directors.

The first primary to select incorporating Directors shall be held in July, 1921.

6. The Directors, by a majority vote, at least twenty days prior to the primary meeting, shall change the said districts and the counties included therein, so as to maintain at all times fair and equitable representation of the cotton producing counties and districts included in the membership.

7. All officers and employees of the Association who handle funds shall be adequately bonded.

7a. The Board shall appoint an Executive Committee of five Directors to conduct the affairs of the Association, subject to the general control of the Board of Directors.

8. Informal local branches of the Association shall be created and maintained in every district and central locality. Each branch shall have its own officers, who may attend the meetings of the Board of Directors and act in an advisory capacity.

9. Every member of the Association shall have one vote.

10. Every member shall pay an entrance or organization fee of Ten ($10.00) Dollars, except that all members of the Texas Farm Bureau Federation shall pay no entrance fee directly, but such fee shall be assumed to be paid for them by the Farm Bureau Federation in the work of organization.

11. The Association shall confine itself to the problems and marketing of cotton and cotton products only and for its members only. It shall have suitable Articles of incorporation

and By-Laws stating the purposes and powers of the Association; the rights and duties of members; manner of forfeiture of membership; value of property interests on withdrawal or expulsion from membership; value of property interests on withdrawal; and any other necessary, pertinent and important points of organization, as determined by the Organization Committee.

12. The Association shall be organized by the Texas Farm Bureau Federation, acting by and through an Organization Committee which shall take such steps as it may deem advisable to secure subscribers for this agreement and members of the Association.

Members of Organization Committee

J. T. Orr (Chairman), Dallas
S. A. Lindsay, Houston
D. E. Lyday, Austin
W. B. Bizzell, College Station
Walton Peteet, Dallas
H. E. Childs, Itasca
C. A. Doose, Ballinger
G. E. King, Taylor
J. B. Fortson, Rice
Joe Hirsch, Corpus Christi
Clarence Ousley, Fort Worth
Ed. C. Lasater, Falfurrias
Henry Coit, Renner
J. L. McConkey, Wichita Falls
Leslie Elliott, Belton
D. M. Jones, Paducah
Shirley Gregg, Manor
J. D. Rodgers, Navasota

13. (a) If by July 1, 1921, signatures of cotton growers or persons eligible to membership covering at least 1,000,000 bales of cotton of the 1920 crop shall not have been secured for this agreement, the organization committee shall so notify every subscriber at his address noted below, prior to July 15, 1921; and the subscriber shall have the right to withdraw and to cancel his signature and the agreement signed by him, by written notice mailed to the Secretary of the organization committee between July 15 and August 1, 1921.

(b) If all signatures are not then withdrawn, the organization committee may then proceed with the organization and with the marketing plans under the Marketing Agreement,

provided signatures covering at least 500,000 bales remain uncancelled.

If signatures covering less than 500,000 bales so remain, the committee shall cancel all contracts.

(c) If signatures of the growers of 1,000,000 bales shall be secured by the said date, July 1, 1921, then this agreement shall be binding upon all of the subscribers in all of its terms and there shall be no right of withdrawal whatsoever.

(d) For all matters of production or signatures and for all statements of fact in connection herewith, the written statement of the organization committee, provided for in Paragraph Twelve hereof, signed by its Chairman, shall be absolutely conclusive, with or without notice to the subscriber.

14. The organization committee shall keep a full, true and detailed account of expenditures, including salaries, fees and costs of every kind; and shall render a written report thereof to the Board of Directors of the Association when organized. The sum expended by the organization committee in organizing the Association shall thereupon become a debt of the Association to the Texas Farm Bureau Federation, payable when and as the Association and the Federation shall mutually agree, provided the sum expended by the Organization Committee and chargeable to the Association shall not exceed one dollar per member of the Association, obtained by the Federation, plus the charter, legal and other expenses of incorporation.

15. (a) We do hereby authorize the organization committee as the representative of all the subscribers to take such steps as it may deem proper to secure subscribers hereto, and when the adequate number is secured, to hold primary elections and have the signers select organizing directors from among growers subscribing hereto, together with the three public directors, conforming as closely as possible to the provisions of Paragraph Four and to take all steps necessary and advisable to organize the Association.

(b) The Association when organized shall make every reasonable effort to secure signatures of additional growers to the Standard Marketing Agreement, to cover the largest possible percentage of the cotton crop of this State.

16. (a) After due investigation the Association may cause a warehousing corporation to be organized in any community or district where any such need is indicated, by written request of at least one hundred members, for the purpose of leasing, purchasing or constructing and operating warehouses or other plants to handle, treat, process, and warehouse or store any or all of the cotton delivered by members of the Association or others.

(b) Such corporation shall have an appropriate name indicating the district; and shall have common capital stock and preferred capital stock in amounts estimated as sufficient for their purposes by the Directors of the Association.

The members shall have two weeks within which to signify their dissent or disapproval of such plan. If, within two weeks of the mailing of such notices by the Association, the majority fail to file written notices of such disapproval or dissent, the Association shall proceed with its program and shall organize the corporation as indicated.

(d) The authorized common stock shall exceed in amount the authorized preferred stock. The common stock shall be sold only to the members of the Association at par, but no member shall purchase originally more than One Hundred Dollars worth of such common stock. The common stock shall have all the voting power of the corporation.

(e) The preferred capital stock shall be divided into five equal classes, all bearing eight per cent cumulative dividends and having similar preferences, subject to retirement with a bonus of two per cent, at the rate of one class or one-fifth thereof annually, beginning with December, 1922.

The preferred stock may be sold to any person, firm or corporation whatsoever.

(f) The original issue of preferred stock shall not exceed Ten Dollars ($10.00) for each bale of cotton of the 1920 crop, covered by the membership of that district; but this amount may be increased proportionately as the membership increases.

(g) The Association shall make a cross-contract with the corporation, providing substantially as follows: That the Corporation shall handle, process, treat, store, ship and deliver, all as required and directed by the Association, the cotton

delivered to it by and at the order of the Association. Such service will be on a non-profit basis; and the corporation shall receive therefor only the actual costs of such operations and amounts, apportioned over the operation of any one season, sufficient to pay a dividend of eight per cent of the outstanding common stock and the dividends on the outstanding preferred stock and to retire in each of the five calendar years, beginning with 1922, one-fifth of the preferred stock, or one class thereof; and sufficient amounts for taxes, insurance, depreciation, betterments and commercial and secondary charges, all as the Directors of the Association may instruct and limit the corporation and not otherwise.

Any warehouse shall be conducted as a public warehouse, with such charges as may be imposed through an official body, or with such charges as are generally prevalent in the district; and any earnings made from such operations as a public warehouse shall be utilized for payment of overhead expenses of the corporation.

The Association shall retire each class of preferred stocks and pay the dividends on the stock by deductions from the cotton of the members within the respective districts in which the warehouses, etc., are built and operated.

As the preferred stock is retired, the Association will calculate the value of the contribution from each grower's cotton towards such retirement and towards payment of dividends on the common and preferred stock; and the corporation will credit and issue from time to time to each member common stock in an equivalent amount at the book value thereof, as conclusively established by the Directors of the corporation, as soon as the aggregate deductions equal the book value of one or more shares.

17. (a) The subscriber agrees (1) to execute, when requested by the Association, a Marketing Agreement in terms substantially the same as those set forth in the agreement herewith embodied; or (2) at the option of the Board of Directors, to be bound by the terms of the following Marketing Agreement.

For such purpose signature to this Association Contract shall be deemed to all effects the same as signature to this

said Marketing Agreement and as acceptance of each and every provision thereof and herein, as of the date of the exercise of such option by the Board of Directors. Notice thereof shall be mailed to each subscriber at his address as noted below.

(b) The subscriber here applies for membership in the Association when organized and expressly agrees that his signature to the Association Contract and to the Marketing Agreement herewith embodied, and to this application for membership shall be irrevocable, except as provided in Paragraph 13; and that he so agreed, in order to induce other growers to sign this agreement for his benefit as well as their own general benefit and the public welfare.

Acceptance of this application for membership and of the Marketing Agreement shall be deemed conclusive, upon the mailing of the notice by the Association; and such mailing and notice shall be conclusively established by the affidavit of the Secretary of the Association.

APPENDIX B

Marketing Agreement of the Texas Farm Bureau Cotton Association

The Texas Farm Bureau Cotton Association, a non-profit association, with its principal office at Dallas, Texas, hereinafter called the Association, first party, and the undersigned Grower, second party, agree:

1. The Grower is a member of the Association and is helping to carry out the express aims of the Association for coöperative marketing, for minimizing speculation and waste, and for stabilizing cotton markets in the interest of the grower and the public, through this and similar organizations undertaken by other growers.

2. The Association agrees to buy and the Grower agrees to sell and deliver to the Association all of the cotton produced or acquired by or for him in Texas during the years 1921, 1922, 1923, 1924 and 1925.

3. The Grower expressly warrants that he has not heretofore contracted to sell, market or deliver any of his said cotton to any person, firm or corporation, except as noted at the end of this agreement. Any cotton covered by such existing contracts shall be excluded from the terms hereof for the period and to the extent noted.

4. (a) All cotton shall be delivered at the earliest reasonable time after ginning, to the order of the Association, at the warehouse controlled by the Association, or at the nearest public warehouse, if the Association controls no warehouse in that immediate district or by shipment as directed, to the Association and by delivery of the endorsed warehouse receipts or bills of lading properly directed.

(b) Any deduction or allowance or loss that the Association may make or suffer on account of inferior grade, quality or condition at delivery, shall be charged against the grower individually.

(c) The Association shall make rules and regulations and shall provide inspectors or graders or classifiers to standardize, grade and class the quality and method and manner of handling, pressing and shipping such cotton; and the Grower agrees to observe and perform any such rules and regulations and to accept the grading established by the Association, which shall be in accordance with the Official Cotton Standards of the United States.

5a. The Association shall pool or mingle the cotton of the Grower with cotton of a like variety, grade and staple delivered by other growers. The Association shall classify the cotton and its classification shall be conclusive. Each pool shall be for a full season.

5b. The Association will endeavor to sell the cotton gradually, as the spinning industry requires it, or at the best possible price before another crop is produced, but in case prices are not satisfactory or production is greater than consumption, or there are abnormal trade or financial conditions, the Association will, in its discretion, hold such part of the cotton as may not be sold at a satisfactory price, until there is a fair demand for it.

6. The Association agrees to resell such cotton, together with cotton of like variety, grade and staple, delivered by other growers under similar contracts, at the best prices obtainable by it under market conditions; and to pay over the net amount received therefrom (less freight, insurance and interest), as payment in full to the Grower and Growers named in contracts similar hereto, according to the cotton delivered by each of them after deducting therefrom, within the discretion of the Association, the costs of maintaining the Association, organization fee and annual membership dues to the Texas Farm Bureau Federation (unless otherwise paid), and costs of handling, grading and marketing such cotton; and of reserves for credits and other general purposes (said reserves not to exceed one per cent of the gross resale price). The annual surplus from such deductions must be prorated among the Growers delivering cotton in that year on the basis of deliveries.

7. The Grower agrees that the Association may handle in

its discretion, some of the cotton in one way and some in another; but the net proceeds of all cotton of like quality, grade and staple, less charge, costs and advances, shall be divided ratably among the Growers in proportion to their deliveries to each pool, payments to be made from time to time until all the accounts of each pool are settled.

8. The Association may sell the said cotton, within or without this state, directly to spinners or exporters or otherwise, at such time and upon such conditions and terms as it may deem profitable, fair and advantageous to the Growers; and it may sell all or any part of the cotton to or through any agency, now established or to be hereafter established, for the coöperative marketing of the cotton of growers in other states throughout the United States, under such conditions as will serve the joint interest of the growers and the public; and any proportionate expense connected therewith shall be deemed marketing costs under Paragraph 6.

9. The Grower agrees that the Association shall borrow money in its name on the cotton, through drafts, acceptances, notes or otherwise, or on any warehouse receipt or bills-of-lading or upon any accounts for the sale of cotton or on any commercial paper delivered therefor. The Association shall prorate the money so received among the growers equitably as it may determine, for each district and period of delivery.

10. The Association may establish selling offices, warehouses, plants, marketing, statistical or other agencies in any place.

11. The Grower shall have the right to stop growing cotton and to grow anything else at any time at his free discretion; but if he produces any cotton during the term hereof, it shall be included under the terms of this agreement and must be sold only to the Association.

12. Nothing in this agreement shall be interpreted as compelling the Grower to deliver any specified quantity of cotton per year; but he shall deliver all the cotton produced or acquired by or for him.

13. (a) This agreement shall be binding upon the Grower as long as he produces cotton directly or indirectly or has the

legal right to exercise control of any commercial cotton or any interest therein during the term of this contract.

(b) If this agreement is signed by the members of a co-partnership, it shall apply to them and each of them individually in the event of the dissolution or termination of the said co-partnership.

(c) If the grower places a crop mortgage upon any of his crops during the term hereof, the Association shall have the right to take delivery of his cotton and to pay off all or part of the crop mortgage for the account of the Grower and to charge the same against him individually. The Grower further agrees that if the mortgagee desires, he will execute in favor of the creditor an assignment of his interest in the cotton which he has sold, or will sell, to the Association for the protection of the creditor to the extent of the creditor's just claim, and the Association in turn agrees, upon notice of such assignment, to respect the same and to pay to the creditor to the extent of his just claim the proceeds otherwise due the grower.

The Grower shall notify the Association prior to making any crop mortgage; and the Association will advise the Grower in any such transactions.

14. From time to time the Grower agrees to mail to the Association any statistical data requested, on the forms provided for that purpose by the Association.

15. This agreement is one of a series generally similar in terms, comprising with all such agreements, signed by individual growers, or otherwise, one single contract between the Association and the said Growers, mutually and individually obligated under all of the terms thereof. The Association shall be deemed to be acting in its own name, for all such growers, in any action or legal proceedings on or arising out of this contract.

16. (a) The Grower hereby expressly authorizes the Association to deliver to any warehouse corporation organized for coöperation with this Association, any or all of his cotton for handling, processing or storing; and to charge against his cotton the prorated costs of such services to his cotton and his prorated shares of the funds necessary to create a reserve,

equivalent to one class of its preferred stock annually plus bonus, to retire the said class; and to pay the interest on advances and the dividends on all outstanding preferred stock.

(b) The Grower shall not be charged for such deductions except on account of warehouses within his immediate district, as determined by the Association; and for such deductions the Grower shall receive a proportionate interest in such warehouses.

17. If the Grower has on hand any cotton of the 1921 or previous crops, free of liens and capable of delivery, he shall deliver such cotton to the Association as it may direct, to be graded by the Association and marketed by it in pools wholly separate from all other deliveries here made, but generally in the manner hereinabove set forth.

18. (a) Inasmuch as the remedy at law would be inadequate; and inasmuch as it now and ever will be impracticable and extremely difficult to determine the actual damage resulting to the Association, should the Grower fail so to sell and deliver all of his cotton, the Grower hereby agrees to pay to the Association for all cotton delivered, sold, consigned, withheld or marketed by or for him, other than in accordance with the terms hereof, the sum of five cents per pound, middling basis, as liquidated damages for the breach of this contract; all parties agreeing that this contract is one of a series dependent for its true value upon the adherence of each and all the growers to each and all of the said contracts.

(b) The Grower agrees that in the event of a breach or threatened breach by him of any provision regarding delivery of cotton, the Association shall be entitled to an injunction to prevent breach or further breach hereof and to a decree for specific performance hereof; and the parties agree that this is a contract for the purchase and sale of personal property under special circumstances and conditions and that the buyer cannot go to the open markets and buy cotton to replace any which the Grower may fail to deliver.

(c) If the Association brings any action whatsoever, by reason of a breach or threatened breach hereof, the Grower agrees to pay to the Association all costs of court, costs for bonds and otherwise, expenses of travel and all expenses aris-

ing out of or caused by the litigation and any reasonable attorney's fees expended or incurred by it in such proceedings; and all such costs and expenses shall be included in the judgment and shall be entitled to the benefits of any lien securing any payment thereunder.

APPENDIX C

By-Laws of the Texas Farm Bureau Cotton Association

We, the undersigned, together constituting and being all the Members, Directors and Incorporators of the Texas Farm Bureau Cotton Association, a coöperative marketing Association, without capital stock and not conducted for profit, do hereby adopt the following code of by-laws, as and for the by-laws of said Association:

Article I

The Texas Farm Bureau Cotton Association may be hereafter referred to as the Association.

The purposes for which this Association is formed are set forth in the second paragraph of the Articles of Incorporation of the Association.

Article II—Board of Directors

Number

Sec. 1. The corporate powers, business and property of the Association shall be exercised, conducted and controlled by a Board of Directors of twenty-three (23) members.

Election

Sec. 2. (a) The Directors shall be elected annually at the regular annual meeting of the members from the membership of the Association and shall hold office until their successors shall have been elected and shall have qualified.

(b) The members shall elect twenty (20) Directors from among members actually residing and growing cotton in the respective districts from which elected.

These districts shall first be the districts set out in the Association Agreement; but after 1921, annually, at least

twenty days prior to the primary meetings, the Board of Directors shall change the said Districts and the representation thereof, so as to maintain at all times fair and equitable representation of the cotton production included in the membership of each of the Districts, without dividing counties.

(c) Three Directors shall be persons nominated in writing, one each by the Governor of Texas, the President of the A. & M. College and the President of the Texas Farm Bureau Federation, and when elected they shall have full authority as Directors, representing primarily the interests of the general public in the conduct of the Association.

Vacancies

Sec. 3. Vacancies in the Board of Directors shall be filled by the other Directors in office; and such new Directors shall hold office until the election of their successors by the members.

In filling any vacancy in the Board of Directors, the Directors shall select a member actually residing and growing cotton in the district whose representation is missing.

Any Director who ceases to be a member or who violates any contract with this Association in any particular, shall cease to be a member of the Board as soon as a majority thereof pass a resolution to such effect.

First Meeting of Directors

Sec. 4. Immediately after each election of Directors, the newly-elected Directors shall hold a regular meeting and organize by the election of a President, a Vice-President, a Secretary and Treasurer and transact any other business. Such officers shall hold office for one year and until their successors are elected and take office. Notice of such meeting is hereby dispensed with.

Regular Meetings

Sec. 5. In addition to the first meeting mentioned above, a regular meeting of the Board of Directors shall be held monthly at such time and place as the Board may determine.

Notice of Regular Meeting of Directors

Sec. 6. Notice of the regular meetings of the Directors shall be mailed to each Director at his last known address at least five (5) days prior to the time of such meeting.

Special Meetings

Sec. 7. A Special meeting of the Board of Directors shall be held whenever called by the President or by a majority of the Directors. Any and all business may be transacted at a special meeting. Each call for a special meeting shall be in writing, signed by the person or persons making the same, addressed and delivered to the Secretary, and shall state the time and place of such meeting.

Notice of Special Meeting

Sec. 8. Notice of each special meeting of the Directors shall be mailed to each Director, at his last known address at least five (5) days prior to the time of such meeting.

Quorum

Sec. 9. Twelve (12) Directors shall constitute a quorum of the Board at all meetings.

Compensation

Sec. 10. The Directors shall receive no compensation for their services as Directors other than reimbursement for railroad fares actually expended by them in attending the meetings of the Board of Directors and Ten ($10.00) Dollars for expenses for each day spent in actual attendance and traveling.

The Directors may, in their discretion, provide reasonable compensation for the members of the Executive Committees of the Board.

Article III—Power of Directors

The directors shall have the power:

1. To conduct, manage and control the affairs and business of the Association; and to make rules and regulations for the guidance of the officers and management of its affairs;

2. To appoint and remove, at pleasure, all officers, agents and employees of the Association, prescribe their duties, fix their compensation, and require from them, if advisable, security for faithful service;

3. To call special meetings of the members when they deem it necessary; and they must call a meeting at any time upon the written request of one-third of the members;

4. To make and enter into agreements with spinners, exporters or others for the sale, marketing or consignment of the cotton grown by members of the Association or the products therefrom;

5. To carry out the marketing contracts of the Association and Growers, in every way advantageous to the Association representing the Growers collectively;

6. To select one or more banks to act as depository of the funds of the Association and to determine the manner of receiving, depositing and disbursing the funds of the Association and the form of checks and the person or persons by whom same shall be signed, with the power to change such banks and the person or persons signing said checks and the form thereof at will.

Article IV—Duties of Directors

It shall be the duty of the Board of Directors:

1. To keep a complete record of all its acts and of the proceedings of its meetings, and to present a full statement at the regular annual meetings of the members, showing in detail the condition of the affairs of the Association;

2. To supervise all officers, agents and employees and see that their duties are properly performed;

3. To cause to be issued appropriate certificates of membership;

4. To install such a system of bookkeeping and auditing that each member may know and be advised from time to time fully concerning the receipts and disbursements of the Association.

Article V

The officers of the Association shall be a President, a Vice-President, Secretary, and Treasurer together with any other administrative Officers, whom the Board of Directors may see fit in its discretion to provide for by resolution entered upon its minutes.

The Board may appoint assistant secretaries, in its discretion, and may delegate to them any or all of the duties of the Secretary hereunder or any other duties.

The compensation and tenure of all officers shall be fixed by the Board of Directors.

The Secretary and Treasurer need not be a member or members of the Board or of the Association.

Article VI—The President

If at any time the President shall be unable to act, the Vice-President shall take his place and perform his duties; and if the Vice-President shall be unable to act, the Board shall appoint a Director to do so. The President or such Vice-President or Director shall:

1. Preside over all meetings of members and Directors;
2. Subject to the advice of the Directors, direct the affairs of the Association;
3. Call the Directors together whenever necessary;
4. Sign, as President, all certificates of membership, and all contracts, notes and other instruments when so directed by the Board of Directors;
5. Discharge such other duties as may be required of him by these by-laws or by the Board of Directors.

Article VII—Secretary and Treasurer

It shall be the duty of the Secretary:

1. To keep a record of the proceedings of the meetings of the Board of Directors and of the members;

2. To keep the corporate seal and the book of blank membership certificates; fill up and countersign all certificates issued and affix said corporate seal to all papers requiring a seal;

3. To keep a proper membership book, showing the name of each member of the Association, the number of his membership certificate, and date of issuance, surrender, cancellation, forfeiture or transfer;

4. To receive and deposit all funds of the Association to be paid out only on checks drawn as hereinbefore provided and account for all receipts, disbursements, and balances on hand;

5. To furnish a bond in such form and in such amount as the Board of Directors may, from time to time, require;

6. To execute and sign all contracts, notes, papers and documents as Secretary;

7. To act as Secretary of the Executive Committee;

8. To discharge such other duties as pertain to his office or may be prescribed by the Board of Directors;

9. It shall be the duty of the Treasurer to take general charge of the funds of the Association as directed by the Board of Directors.

Article VIII—Executive Committee

The Board of Directors shall appoint an Executive Committee of five (5) members from among its members; determine its tenure of office and its powers and duties. The President shall be ex-officio a member of the said Executive Committee.

The Executive Committee shall have such duties and powers as may from time to time be prescribed by the Board of Directors and these duties and powers may be all of the duties and powers of the said Board of Directors, subject to the general approval and control of the Board of Directors.

Article IX—Auditing Committee

The Board of Directors may appoint an Auditing Committee from among its members, determine the number of its members, and its tenure of office. The Board may prescribe

rules and regulations with reference to the manner and form in which claims shall be presented against the Association and the manner of auditing the same, and in lieu of such action by the Board, the Auditing Committee may prescribe rules and regulations with reference to its meetings and procedure.

A semi-annual audit shall be made by a certified public accountant and an annual report shall be filed by him with the Board of Directors prior to the annual meeting.

Article X—Advisory Committees and Local Branch

(a) The Board of Directors of the Association may create Advisory Committees of members in the various districts. The Directors shall designate the districts and the number of members for each such Advisory Committee and the method of selecting the members thereof or the Board of Directors may itself select and appoint the members thereof. The Board of Directors shall determine the term, duties, functions, and privileges of such Advisory Committee.

(b) Informal local branches of the Association shall be created and maintained in every district and central locality. Each branch shall have its own officers, who may attend meetings of the Board of Directors and act in an advisory capacity.

Article XI—Books and Papers

The books of the Association and such papers as may be placed on file by vote of the members or Directors shall at all times during business hours be subject to the inspection of the Board and of any member of the Association or his representative, duly authorized in writing.

Article XII—Meetings of Members

Regular Meetings

Sec. 1. A regular meeting of the members shall be held at the office of the Association at 11 o'clock A. M., on the fourth Monday in June of each year, for the purposes of

electing a Board of Directors and transacting such other business as may come before the meeting.

Special Meetings

Sec. 2. Except where otherwise prescribed by law or elsewhere in these by-laws, a special meeting of the members may be called at any time by the President or by a majority of the Board of directors or by one-third of the membership. Each such call shall be in writing and shall state the time, place and the purposes of such meeting. No business shall be transacted at a special meeting other than as is stated in the purposes for the call.

Notice of Regular Meetings

Sec. 3. Notice of each regular meeting of the members shall be given. Such notice must state the time and the place of the meeting, and that the purposes thereof are the election of a Board of Directors and the transaction of such other business as may come before the meeting. A copy thereof shall be mailed to each member of the Association, as his address shall appear upon the books of the Association, at least ten (10) days prior to the time fixed for holding such meeting.

Quorum

Sec. 5. At any meeting a majority of the members, present in person or represented by proxy, shall constitute a quorum for all purposes, including the election of Directors, except when otherwise provided by law.

Sec. 6. The members in each district, as specified by the Board of Directors, shall hold a primary election in each district, to be conducted as, where and when specified by the Board of Directors; and shall, through delegates or otherwise, select two (2) names from each district to be voted upon finally by the members for election as the Director to represent each such District. The final election shall then be held in each district by mail.

If unable to attend, members may vote at the primary

meetings by mail, on a signed ballot prepared under direction of the Board of Directors. Participation in such primary meetings, in person or by proxy or by mailed ballot, shall be included as attendance in calculating the quorum for the annual meeting of members.

The Directors shall be elected at the annual meeting to be held on the fourth Monday in June of each year.

The Board of Directors shall prepare a form of proxy under which the voters in each district may authorize a member, or members, to be suggested by the Board of Directors or otherwise, to act as their proxy to cast their votes for the nominee whom they desire to elect as Director from the respective districts; and the proxies shall carry out the instructions of the members and cast the ballots accordingly.

Article XIII—General Provisions Concerning Members

Not a Profit Corporation

(a) This Association is organized for the purpose of mutual help, without capital stock, and for the purpose of serving its members only and providing all of its facilities to them upon uniform rules and regulations to be prescribed by the Board of Directors of the Association.

Members—Who Eligible

(b) Any person, firm or corporation or a manager or officer of any corporation or a member of any firm engaged in the production of cotton may be admitted to the Association and shall have voting power and property rights therein on the same basis as all other members, in accordance with the general rules herein stated. All members agree to abide by all of the rules, resolutions and by-laws of the Association with reference to the handling and marketing of their cotton or cotton products. All members will sign standard marketing agreements from time to time, covering the cotton or cotton products produced by or for them, when and as such agreements are approved by the Board of Directors and presented to the members for signature and acceptance.

The present cotton marketing agreement is attached hereto and made a part hereof.

All members shall be bound by all the terms of any such agreements.

Membership Certificates

(c) This Association shall issue a certificate of membership to each member who has signed a marketing agreement in such form as may be provided by the Directors but said membership shall not, nor shall said certificate thereof, be assigned by said member to any other person, nor shall a purchaser at execution sale or any other person who may succeed by operation of law or otherwise to the property interests of a member, be entitled to membership or to become a member of the Association by virtue of such transfer. The Board of Directors of the Association may, however, consent to any assignment and transfer and the acceptance of the assignee or transferee as a member of the Association. The Board will establish reasonable rules and regulations authorizing the acceptance of a transferee and recognizing as a member the purchaser of a member's land or lease, who acquires such member's membership certificate after signing a marketing agreement; and determine the conditions under which the executor or administrator of a deceased member may continue as a member representing such deceased member; and the requirements for the issuance and transfer of an appropriate membership certificate to the successor or successors in interest of such member's land or lease and likewise the conditions for transfer of rights and certificates to a purchaser at execution sale and any successor by operation of law.

Member to Market Output in Accordance With Rules of the Association

(d) No person shall be or remain a member of this Association unless he is and remains qualified as provided in Subdivision (b) of Article XIII, hereof, nor unless he shall market all cotton grown or owned by him in compliance with all the terms and provisions of the marketing agreements referred to in Subdivision (b) of Article XIII, hereof and

then in force; but no such person shall cease to be a member hereof unless and until the Board of Directors by a majority vote, passes a specific resolution to that effect.

If any member shall cease, fail, neglect or refuse for any reason whatsoever to market all or any of the cotton owned or grown by him as provided by the said marketing agreements, then the Board of Directors may cancel his membership and his certificate and expel him from membership in this Association; and all of his rights and interest therein shall by that act be cancelled and such member shall be entitled only to payment, as provided by law, of the equitably appraised cash value of his interest in the property of the Association.

The expulsion of any member or any penalty imposed upon him for the breach of any of these by-laws shall be separate from and in addition to the provisions of the standard marketing agreements in reference to liquidated damages or other remedies. It is expressly understood that the Association may exercise any rights whatsoever under the said standard marketing agreements for a breach of such agreements and in addition impose any penalty set forth in these by-laws for the express violation of a by-law.

Voting Power of Members

(e) The voting power of the members of this Association shall be equal; and each and every member hereof shall have one vote.

Property Rights and Interests

(f) The property rights and interests of each member in the property of the Association shall be equal; and each and every member hereof shall have one unit of property rights and interests.

(g) The Association, by action of the Board of Directors, shall have the full right to purchase the full interest of any member in the property or other rights of the Association, at the book value thereof, whenever, in the judgment of the said Board, it is essential to the interests of the Association so to do; and the statement of book value thereof by the Board of

Directors shall be conclusive. Any member whose rights are so purchased shall cease to be a member of the Association and his membership certificate shall thereupon be cancelled.

New Members

(h) Any person, firm or corporation or a manager or officer of any corporation or a member of any firm engaged in the production of cotton may be admitted to the Association and shall have voting power and property rights therein on the same basis as all other members, in accordance with the general rules hereinabove stated.

Board to Establish Standards and Grades

(i) The Board of Directors shall have the power to establish and to revise and amend from time to time rules and regulations by which each member shall be governed with reference to the proper handling, classifying and shipping of cotton to secure a proper grading and standard of quality.

Membership or Entrance Fee

(j) Every person shall pay to the Association upon entering the Association, a membership fee, due and payable upon entrance, of Ten ($10.00) Dollars; but such fee shall be waived prior to 1926 for all members of the Texas Farm Bureau Federation.

If the said entrance fee is not actually paid when due, it shall be charged against the account of the member and be deducted from his net returns under the standard marketing agreements and these by-laws.

Expense of Maintaining Organization

(k) All expenses of maintaining the Association including among other things, rent, salaries, taxes, insurance, office and inspection expense, building reserves, marketing and all other expenses, shall be met so far as possible from the membership fees and thereafter from the charge provided in the marketing agreements.

Any surplus over and above the actual expenditures and obligations of the Association shall be conclusively presumed to be a surplus arising out of the costs or charges referred to in paragraph five (5) of the standard marketing agreements.

(l) The members shall not be liable for debts of this corporation except to the extent of any unpaid portion of their entrance or membership fees herein.

Penalties

(m) In the event that any member knowingly violates any of these by-laws, he shall be liable to the Association for the payment of a penalty of Fifty ($50.00) Dollars for each and every such violation.

Such penalties shall be imposed only by affirmative vote of at least seven of the Directors and shall be in addition to any other punishments or penalties under these by-laws and in addition to any rights, vested in the Association under the standard marketing agreements for any violation thereof.

Pools

(n) The Board of Directors of this Association will provide for separate pools in the marketing of cotton by grade, quality, character, staple length or other commercial classification.

All returns to the members of this Association shall be based on the net proceeds from each of the said pools less all charges provided in the marketing agreement, and by-laws of this Association, depending on their individual deliveries to each of the said pools; and all such payments shall be made as and when and in such percentages or proportions as the Board of Directors may deem advisable.

Prior to actual distribution to the grower-members, the Board of Directors of the Association will be authorized to use any of the funds in the possession of the Association or any property or rights of the Association for any of the purposes or activities of the Association within the general provisions of Article II of the Articles of Incorporation.

Provisions for Liquidated Damages

(o) Each member agrees to market the cotton grown or owned by him, in accordance with the provisions of the standard marketing agreement; and each member admits that it would be extremely difficult and impracticable to fix the amount of damages which the Association or its members would suffer if he should neglect, refuse or fail to keep and perform the terms, conditions and agreements herein and in his marketing agreements contained as to such marketing; and therefore it is expressly understood and agreed by and between each of the members of the Association, including any persons hereafter becoming members and acknowledging notice and acceptance of these by-laws; that if he shall refuse, neglect or fail to market his cotton through the facilities and in the manner provided by the Association and in accordance with the terms of the agreements, such member shall pay to the Association as liquidated damages, upon demand of the Association, the sums set forth in the said marketing agreement.

Article XIV—Proxies

Any member shall be permitted to vote at any meeting by proxy, which proxy shall be in writing, executed by the member in the manner and form required or permitted by law.

Article XV—Manager

The Board of Directors may, in its discretion, appoint a Manager, who shall hold office at the pleasure of and on terms and conditions set by the Board of Directors. Any Director, officer or other person may be elected to serve as Manager. The Manager shall perform such duties as may be directed by the Board of Directors.

Article XVI—Borrowing Money

The Association shall have the power, by affirmative vote of at least twelve Directors, to borrow money for any corporate purposes on open account or upon any assets of the Association or on any property of members in its possession

or upon any accounts thereof or any property not yet distributed to the members, in such amounts and upon such terms and conditions as may from time to time seem to the Board of Directors advisable or necessary.

Article XVII

Any officer or stockholder or manager or member of any corporation or firm which has signed the Marketing Agreement of the Association and has become a member thereof shall be eligible as a Director of the Association; and for this purpose a membership certificate may be issued in the name of any such individual to be charged against or credited to the account of the corporation or firm of which he is an officer, stockholder, manager, or member, upon the written request of such corporation or firm.

When any such individual ceases to be a Director of the Association, such membership certificate or all of the rights and interests represented thereby, shall be transferred again to the said corporation or firm represented by such person.

Article XVIII

The seal of the Association shall contain these words and figures: "TEXAS FARM BUREAU COTTON ASSOCIATION, Incorporated 1921," in circular form.

Article XIX

These by-laws may be altered or amended at any annual meeting of the members or at any other meeting of the members called for that purpose by the Directors by a vote representing a majority of all the members. The written assent of one-half (½) of the members shall be effectual to repeal or amend any by-laws or to adopt additional by-laws without any meeting.

APPENDIX D

Articles of Incorporation of the Texas Farm Bureau Cotton Association

We, the undersigned, all of whom are residents and citizens of the State of Texas, engaged in the production of agricultural products, do hereby voluntarily associate ourselves together for the purpose of forming a non-profit coöperative marketing association, without capital stock, under the Coöperative Marketing Act of the State of Texas.

I

The name of this corporation shall be Texas Farm Bureau Cotton Association.

II

The purposes for which the Texas Farm Bureau Cotton Association is formed, are:

(a) To promote, foster and encourage the business of marketing cotton coöperatively; to minimize speculation and waste in the production and marketing of cotton and cotton products; to stabilize cotton markets; to handle coöperatively and collectively the problems of cotton growers;

(b) To engage in any activity in connection with the harvesting, grading, handling, processing, storing, shipping, warehousing and marketing for domestic or export trade of cotton or cotton products of the Association and of its members and in the financing of any of said operations;

(c) To purchase and sell any cotton or cottonseed or cotton products of its members and to purchase and to sell to its members machinery, equipment or supplies used in any of the above mentioned activities, either by the Association or by the members thereof;

(d) To borrow money and to make advances to the members of the Association;

(e) To lend money to the members of the Association, in connection with any of the said activities, upon any adequate security; and to accept as collateral for any such loans, warehouse receipts, crop mortgages, chattel mortgages, mortgages, deeds of trust or any other kind of property or security permitted by law;

(f) To endorse, guarantee the payment of or secure in any way, commercial paper or negotiable instruments signed by any member of the Association, in connection with any of the above mentioned activities;

(g) To sell, issue, discount or borrow money upon any commercial paper or negotiable instruments, or promissory notes, or warehouse receipts, or mortgages, or bonds, or any other kind of property or security owned by or under the control of the Association;

(h) To act as the agent, representative, factor or broker of its members, in any of the above activities;

(i) To purchase, or otherwise acquire, and to hold, own, exercise all rights of ownership, sell, transfer or pledge shares of the capital stock, or bonds, or securities of any corporation or association engaged in the processing, or grading, or storing, or shipping, or handling, or marketing of any cotton or cotton products, in furtherance of any of the above mentioned activities;

(j) To buy, hold, lease, construct, contract for the use of and exercise all privileges of ownership over such real or personal property as may be necessary or convenient for the conduct and operation of any of the business of the Association;

(k) To acquire, own, develop any interest in patents, trademarks or copyrights, connected with the handling or marketing of the cotton or cotton products of the Association or its members;

(l) And to do each and everything necessary, suitable or proper, in the judgment of the Directors of this Association, anywhere throughout the world, for the accomplishment of any of the purposes or attainment of any one or more of the objects herein enumerated, or which shall at any time appear

conducive to or expedient for the interests or benefit of this Association and the members thereof and to contract accordingly.

The Texas Farm Bureau Cotton Association shall make no profits from any of its activities; but all of its operations shall be for the mutual benefit of its members only and shall be coöperative in character.

The operations and activities of this Association shall be limited to activities arising out of the harvesting, processing, grading, shipping, storing, warehousing, handling and marketing of the cotton, cottonseed, or cotton products of the Association and of its members only and to the financing of any of the said operations or of its members.

The Texas Farm Bureau Cotton Association shall not be permitted to buy or sell cotton except from and for its members only and on a standard coöperative basis. It shall not buy any cotton whatsoever from non-members; or be permitted to go in the open market to buy cotton or any cottonseed or cotton products whatsoever.

The Texas Farm Bureau Cotton Association is expressly forbidden to do anything with the intent or effect of lessening the use or consumption of any product; or of restricting or limiting commerce in any product; but this Association shall do everything within its power to prevent speculation in the handling of cotton and cotton products and to secure for its members a fair price for their cotton or cotton products in the markets of the world; and to increase the sale, use and consumption of cotton and cotton products by all possible commercial and merchandising methods; and to use every possible means to improve the supply and to extend and increase the demand for cotton and cotton products.

This Association shall have and exercise all powers, privileges and rights authorized by the laws of this State and all powers and rights incident thereto.

III

The place where the principal business of the Texas Farm Bureau Cotton Association will be transacted is Dallas, Dallas County, State of Texas.

IV

The term for which the Texas Farm Bureau Cotton Association is to exist is fifty (50) years from and after the date of incorporation.

V

The Texas Farm Bureau Cotton Association shall be managed by a Board of twenty-three Directors. The names and residences of those selected to serve for the first year and until their successors shall have been elected and qualified, are:

Name	*Residence*	*Co. and State*	
J. W. L. Hall	New Boston	Bowie Co.,	Texas
Jeff F. Montgomery.	Mt. Pleasant	Titus	"
H. W. Head	Sherman	Grayson	"
J. B. Ramsey	Long Branch	Panola	"
W. W. Pitts	Wills Point	Van Zandt	"
W. D. Farris	Ennis	Ellis	"
G. C. Stoneham	Yarboro	Grimes	"
R. D. Forbes	Reagan	Falls	"
Earl B. Smyth	Mart	McLennan	"
B. C. Lightfoot, Sr. .	Grandview	Johnson	"
M. W. Bell	Weatherford	Parker	"
T. M. Haney	Crowell	Foard	"
Phil Mason	Sweetwater	Nolan	"
W. W. Farmer	Ballinger	Runnels	"
Leslie Elliott	Temple	Bell	"
D. O. Cox	Chriesman	Burleson	"
Shirley Gregg	Manor	Travis	"
Chas. Herder	Weimar	Colorado	"
Van S. Ingram	Kenedy	Karnes	"
J. A. Hill	Alice	Jim Wells	"
Jno. T. Orr	Dallas	Public Director	
S. A. Lindsey	Houston	Public Director	
G. H. Alford	Dallas	Public Director	

VI

The Texas Farm Bureau Cotton Association shall not have any capital stock; but shall admit members into the Association upon payment of an entrance fee of Ten ($10.00) Dollars and other uniform conditions. The Association shall waive payment of such entrance fees up to 1926 to all members of the Texas Farm Bureau Federation.

The voting power of the members of this Association shall be equal; and each member shall have one unit of property rights only.

In witness whereof, we have hereunto subscribed our names, this 22nd day of July, A.D., 1921.

Signed:

Jeff F. Montgomery	Chas. Herder
W. W. Pitts	Van S. Ingram
Leslie Elliott	J. T. Orr
J. W. L. Hall	S. A. Lindsey
J. B. Ramsey	H. W. Head
T. M. Haney	M. W. Bell
R. D. Forbes	B. C. Lightfoot
G. C. Stoneham	Geo. H. Alford
Phil Mason	J. A. Hill
W. W. Farmer	Earl B. Smyth
D. O. Cox	W. D. Farris
Shirley Gregg	

STATE OF TEXAS
DALLAS COUNTY

Before me, a Notary Public within and for said County and State, on this 25th day of July, 1921, personally appeared J. T. Orr known to me to be one of the identical persons who executed the within and foregoing instruments; and he acknowledged to me that he had executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.

Witness my hand and official seal the day and year above set forth.

Irene Mulkey,

Notary Public in and for the County of Dallas, State of Texas.
My commission expires June 1st, 1923.
Counsel for Texas Farm Bureau Cotton Association.
ENDORSED:

FILED IN THE OFFICE OF THE SECRETARY OF STATE, This 27th day of July, A. D., 1921.

S. L. STAPLES,
Secretary of State.

THE STATE OF TEXAS
DEPARTMENT OF STATE

I, S. L. Staples, Secretary of State of the State of Texas, do hereby certify that the foregoing is a true and correct copy of

Charter of,

Texas Farm Bureau Cotton Association, with the endorsement thereon, as now appears of record in this Department.

(SEAL) In Testimony Whereof, I have hereunto signed my name officially and caused to be impressed hereon the Seal of State at my office in the city of Austin this the 27th day of July, A. D., 1921.

S. L. STAPLES
Secretary of State.

APPENDIX E

American Cotton Growers Exchange Agreement

A. The undersigned are Associations duly incorporated, without capital stock, under the laws of various states, for the express purposes of marketing cotton coöperatively; for reducing speculation and waste; for stabilizing cotton markets and for handling the problems of cotton growers on a collective and coöperative basis, without profit to the Associations; and

B. Each such Association has standard marketing agreements with its members only, whereby the cotton produced by such members during a term of at least five (5) years must be sold to the Association, for resale by the Association; and whereby the net proceeds of all such resales shall be pooled according to the variety, grade and quality of the cotton involved and be distributed to the growers on a proportionate basis, so that every grower will receive the same as every other grower for the same quantity, of any variety, grade and quality of cotton sold through the Association; and

C. In these standard marketing agreements, each Association is authorized to sell the cotton of its members to or through any agency to be established for the coöperative marketing of the cotton of growers in various states through the United States, under such conditions as will serve the joint interest of the growers and the public; and under the express authority to allot any proportionate expenses connected therewith as marketing costs under the standard marketing agreements.

Therefore, in consideration of the premises; and of the mutual advantages to be obtained hereunder; and of the obligations undertaken by each of the Associations by reason of this agreement; and of the reliance by each of the Associations upon the other undersigned Associations for complete performance of all of the provisions hereof, authorizing the

establishment of a Central Agency with appropriate personnel and machinery for performing the marketing and other obligations of the Associations under the standard marketing agreement;

1. Each Association unites with the other undersigned Associations in authorizing the formation of the American Cotton Growers Exchange.

2. The Exchange will not be incorporated, unless, by affirmative vote of three-fourths (¾) of the Trustees, the Exchange determines to incorporate itself. In such event, every obligation hereunder assumed shall be assumed by and to the Exchange as so incorporated and shall be accordingly assigned by the Exchange; and the general form of management and control herein set forth shall be provided for in the Articles of Incorporation and By-Laws of the Exchange.

3. The Exchange shall be originally formed by Trustees representing Associations signing this agreement. Each Association shall select three Trustees. Where more than one Association from any one state becomes a member thereof the Trustees, by two-thirds vote, shall conclusively fix the distribution of Trustees for the Association from that state with the maximum number of three for any one state. This provision may be changed after May 1, 1923 by majority vote of the Trustees. If the Staple Cotton Coöperative Association becomes a member hereof, it shall be entitled to as large representation as the largest of the Associations connected herewith; and this shall not affect the total of Trustees from Mississippi.

4. Any Association handling cotton on a purely coöperative and non-profit basis may, upon approval by the Executive Committee, sign this agreement at any time after original execution, and select its Trustees as part of the said Exchange, under the express agreement to assume all proportionate obligations hereunder.

5. The Trustees shall be selected by the respective Associations and may be removed by them in any manner and at any time the Association may desire.

Vacancies shall be filled by the Associations whose representation is affected.

6. The Exchange shall be deemed operative as soon as this agreement is signed by any three (3) Associations authorized to handle the cotton of their members coöperatively.

The term of this Exchange and the Agency shall extend from the date of signature by three or more Associations to the time necessary for the completion of the marketing of cotton of the 1926 crop.

If any Association, by reason of its standard marketing agreements in force in 1922 and 1923, ceases to function on such agreement prior to the 1926 crop, the Agency shall terminate as to such Association, with the completion of the handling of the last crop covered by its current standard marketing agreements.

7. The Exchange shall organize by the election of a chairman, Vice-Chairman, Secretary and Treasurer. (The Treasurer may be a bank.)

The Exchange shall create an Executive Committee, to be composed of one member from each state, with one additional member from the Staple Cotton Association, if it becomes a member, and one member from among the public trustees, if appointed, to carry on the detailed business of the Exchange.

In addition to the Trustees selected by the undersigned Association, the Secretary of Agriculture, the Chairman of the Federal Trade Commission, and the Governor of the Federal Reserve Board, shall each be asked to name one person to serve as a Trustee, representing the interests of the general public on the Exchange.

If any such public Trustees are appointed, one of them must be selected as a member of the Executive Committee.

The Exchange shall arrange for the payment of an adequate per diem to all of the Trustees and may direct the payment of salaries to its active officers and the members of the Executive Committee.

8. The Exchange shall formulate its own rules; meet where and when it may decide; and generally select its own methods for carrying out the functions hereunder allotted to it; but the Exchange must keep a full and definite record of all of its activities and transactions and send a copy thereof monthly to each of the undersigned Associations.

9. The Trustees selected by each Association, shall represent the Association as its duly authorized Agent and Attorney of Fact, with full and absolute power, authority and obligation to carry out for the said Association and all the undersigned Associations, any and all of the obligations, duties and functions generally outlined or expressly set forth herein.

10. The undersigned Associations hereby appoint and constitute the said Exchange, composed of their own respective Trustees, together with Trustees from similar Associations, as the exclusive Agent for the exercise of the general grading, inspecting and marketing powers, granted under the standard marketing agreements of the Association only as herein specified.

This agency shall be coupled with an interest in behalf of the respective obligated members thereof; and shall be irrevocable during the term hereof.

11. The Exchange shall supervise all the inspection, grading, classing, warehousing, transportation, and processing of the cotton delivered to the undersigned Associations; and shall sell and market for and on the account of the undersigned Associations, all of the cotton of the Associations not sold directly by the Associations themselves, all as specified herein and not otherwise.

The Exchange is hereby constituted as the exclusive operating Agent for the Associations as herein specified for such purposes, subject to the standard marketing agreements between the Associations and their members, copies of which are deemed filed herewith.

12. The Exchange shall create the following departments and shall select a General Manager and Heads of each of the said Departments in its discretion, all as and when the Exchange deems that each department should become operative:

A. Executive and Administrative;
B. Office Management;
C. Grading and Standardizing;
D. Warehousing;
E. Insurance;

F. Transportation;
G. Finance;
H. Statistical;
I. Sales of ordinary cotton—Domestic and Foreign;
J. Sales of long staple cotton—Domestic and Foreign;
K. Legal;
L. Field Service.

The functions of the Chief departments shall be fixed by the Exchange, subject to variation, by or on the authority of the Exchange, the Departments shall function as follows:

A. The Executive and Administrative Department shall have complete charge of all activities of the Exchange.

B. Office Management shall have charge of all office operations, purchase of supplies for the Exchange and for any association at its request, including the installation of uniform systems of accounting and auditing and checks and receipts for any of the Associations at their request.

C. The Grading Department shall have general charge of the classification of cotton offered for sale through the Exchange. This Department shall work out appropriate standards, subject to the laws of the land, and shall supervise the grading and inspection done within each of the Associations, so as to keep the grading uniform for purposes of sale.

This Department shall determine the basis for all classifications and shall give due allowance for any variation of a commercial nature, howsoever slight, between the cotton of same general grade produced in different districts.

Each Association will maintain its own inspection and grading forces. The activities of the Grading Department of the Exchange will involve supervision over grading and enforcement of a uniform classification.

D. The Warehousing Department shall advise with the Associations on the erection of local warehouses and shall aid in standardizing such warehouses, to bring them within the best known standards, including qualifications for license under the Federal Warehouse Act.

The Warehousing Department shall actively supervise and initiate activities in reference to the use, lease, acquisition or

construction of central warehouses or plants, or warehouses at shipping ports or in foreign countries.

E. The Insurance Department shall have a general advisory supervision over all matters referring to insurance in the United States, in transit, or in foreign lands. This Department shall also attend to the possibilities of insuring sales accounts; bonding of all employees who handle funds; and all matters of rates involved herein.

F. The Transportation Department shall have charge of all matters in reference to railroad and shipping accommodations, railroad rates, rates for storage or reconditioning in transit, loading and unloading charges, port charges, demurrage charges, shipping rates, and allied problems.

G. The Finance Department shall act as an advisor of each of the Associations in the handling of its financial problems, including the standardizing of crop liens, and the securing of credit upon cotton when delivered, through drafts, acceptances, commodity bonds, or otherwise.

The Finance Department shall act as an advisor and as an auxiliary to each of the Associations; and shall perform any direct functions in placing commercial paper or bonds or in securing advances for the Associations only on their express request.

It shall be the duty of this Department to encourage financing through the local facilities within each state; and to coordinate the interests and activities of local bankers with the needs of the local districts, within each Association.

H. The Statistical Department shall gather statistics from all over the world in reference to the production, distribution, storage or marketing of cotton, or any problems involved therein.

The Department shall conduct all researches regarding production or extension of markets for cotton.

I-J. The Sales Department shall be divided into two general divisions; first, handling short staple cotton only; second, handling staple cotton only.

Each of these shall be divided into two sections, coördinated for all practical purposes; Domestic Sales and Export Sales.

It will be the function of the Sales Department to engage

experts to handle each distinct type of cotton and to find buyers for the cotton of the various Associations, anywhere in the world, preferably spinners and direct agents for spinners or exporters.

K. The Legal Department shall take care of all of the Legal Problems arising in the operations of the Exchange, including definite supervision as general counsel over all of the legal problems arising in each of the Associations.

L. The Field Service Department shall have general supervision of organization; publicity and contact with the growers in all of the states. This Department shall help initiate and complete organization of growers in all unorganized states, and increase or build up the organizations in states in which the growers have not adequately responded to the advantages of coöperative organization.

M. Legislative problems shall be determined as matters of policy by the Executive Committee; and shall be handled by the Field Service Department and Legal Department under general supervision of the Executive.

13. The Exchange may change these departments and functions; create new ones or abolish old ones; increase or decrease the same; from time to time as it may deem proper.

The Exchange shall select the General Manager and Heads of Departments and other employees, under such terms and conditions as it may deem advisable; rent and furnish headquarters and offices; incur such expenses and perform such activities as, in the judgment of the Exchange are necessary, advantageous or advisable for carrying out any of the purposes of this agreement, all upon such terms as the Exchange may deem proper in the interest of the Associations.

The Main Office of the Exchange shall be at Dallas, Texas; but selling, sampling, financial, statistical or other offices shall be maintained at such other points in the United States, or elsewhere in the world, as the Exchange may consider advisable.

14. The Exchange shall establish a General Sales Department with the General Manager as Sales Manager to supervise and coördinate all sales of cotton, particularly in the Southwestern States, primarily for export.

An Associate Sales Manager shall be stationed in the Southeast at an appropriate point to coördinate all mill sales in the Southeast and the handling of Southeastern cotton.

Each state shall maintain its own sales department in charge of its sales manager who shall be an employee of the Association.

The Exchange shall establish sales offices in each state; and at New Orleans, New England, the Southeast and England; and at such other points as it may from time to time find advisable.

15. Each Association shall send a record to the office of the Exchange, to indicate what cotton has been delivered to it, stating number of bales (and pounds); grade, quality, color, staple, length, character, and such other details as the standard forms may require.

Each Association shall retain the right and be entitled without restriction or limitation, to sell its own cotton, or any portion thereof, under any conditions and under any terms acceptable to it. For this purpose all of the facilities of the Exchange, including statistical information, etc., shall be available to each Association.

There shall be unrestricted freedom and right of sale by the Associations for all such cotton as they may desire or are able to sell directly.

The Exchange, through its various offices, shall secure offers and orders for cotton and shall file such orders with the Sales Manager of the Association possessing such cotton; and the Association Sales Manager shall, if the terms and prices are satisfactory, and not otherwise, sell such cotton. Notice of rejection or of sales indicating purchaser and other pertinent information, upon forms provided by the Exchange, shall be filed with the Exchange immediately upon sale.

16. The Exchange Managers and offices shall rotate or distribute or allot offers or orders for the sale, consignment or delivery of cotton, so as to cover cotton of similar grade, character and staple, from each of the Associations on relatively similar terms at approximately the same time and under similar conditions in proportion to the amount of cotton of

such grade, character and staple delivered to each Association as noted by the records in the office of the Exchange.

On all sales the proceeds shall be remitted directly to each Association for the cotton sold by or through such Association.

17. Uniform systems shall be installed through the Exchange and shall be adopted by each of the Associations, but the Associations shall keep their own detailed accounts with their own members and shall check out all ultimate proceeds to their members through their own offices.

18. All expenses of the Exchange shall be borne by and prorated from time to time among the undersigned Associations on the basis of the gross proceeds of the cotton of each crop season sold by each of the Associations, directly or through the Exchange or otherwise; and the Associations agree to pay such proportionate share of the expenses of the Exchange.

But no Association shall be obligated for any expense not here generally authorized nor for any of the obligations of any other Association.

The Exchange may call upon each Association in advance for funds estimated as necessary expenses and each Association agrees to pay over to the Exchange such funds from time to time.

Any surplus arising from payments made to meet the needs of the Exchange, but actually in excess thereof, in any business year, shall belong and shall be distributed to the undersigned Associations on a proportionate basis, depending upon the amount originally collected from each by the Exchange during that year.

The prorating and apportionment of expenses as determined by the Exchange shall be conclusive.

19. This Agreement may be amended only with the consent of all of the undersigned on material obligations; and on other matters by a two-thirds vote of all of the trustees; and may be varied in any minor matter of procedure but not of right, with advice of counsel, by act of the Executive Committee, to meet the technical requirements of any particular state or national or foreign laws.

20. It is further understood and agreed that the signature

hereto of the Oklahoma Cotton Growers Association, a corporation, is conditioned and limited to the extent to which it is authorized, by its standard marketing agreement and standard association agreement, with its members, to which agreements reference is here specifically made, to contract and incur liabilities, and it is further conditioned that its liability hereunder in any one year shall not be greater than an amount which when added to the regular operating expenses as contracted directly by the Oklahoma Cotton Growers Association, a corporation, will equal four per cent of the gross selling price of the cotton handled during said year by said Oklahoma Cotton Growers Association, a corporation.

Read, considered and signed by the Associations below named by their respective Presidents and Secretaries, thereunto duly authorized by express resolution of their respective Boards of Directors.

Oklahoma Cotton Growers Association.
Texas Farm Bureau Cotton Association.
Arizona Pimacotton Growers.
North Carolina Cotton Coöperative Association.
Alabama Farm Bureau Cotton Association.
Arkansas Cotton Growers Coöperative Association.
Georgia Cotton Growers Coöperative Association.
South Carolina Cotton Growers Coöperative Association.
Louisiana Farm Bureau Cotton Association.
Mississippi Farm Bureau Cotton Association.
Tennessee Cotton Growers Association.
Missouri Cotton Growers Coöperative Association.

APPENDIX F

By-Laws

of the

FARM BUREAU GIN COMPANY OF ..... TEXAS, A CORPORATION

WE, the undersigned, together constituting and being all of the directors of the FARM BUREAU GIN COMPANY OF ....., TEXAS, a corporation, do hereby adopt the following code of By-laws as and for the By-laws of said Corporation.

Article I

The purposes for which this Corporation is formed, are set forth in the second paragraph of the Articles of Incorporation.

The Farm Bureau Gin Company of ....., Texas, a Corporation, is hereinafter referred to as the "Corporation."

Article II

Sec. 1. The corporate powers, business and property of the Corporation shall be exercised, conducted and controlled by a Board of Directors of five members.

Sec. 2. The directors shall be elected annually at the regular annual meeting of the stockholders and shall hold office until their successors are elected and qualified.

Vacancies

Sec. 3. Vacancies in the Board of Directors shall be filled by the other directors in office and such new directors shall hold office until the election of their successors by the stockholders.

Meetings

Sec. 4. Immediately after the election of directors, the newly elected Board shall hold a regular meeting and organize by the election of a President and a Vice President, and Secretary and Treasurer, and transact any other business for the Corporation. Notice of such meeting is hereby dispensed with.

In addition to the first meeting, the Board of Directors shall meet once a month, thereafter, at such time and place as the Board may determine.

Notice of Meetings

Sec. 5. Notice of the regular or special meetings of the directors shall be mailed to each director at least five days prior to such meeting.

Quorum

Sec. 6. Three directors shall constitute a quorum of the Board at all meetings.

Compensation

Sec. 7. The directors shall receive no compensation for their services as such.

ARTICLE III

Powers of Directors

The directors shall have the following powers, subject to the consent and approval of a majority of the shareholders:—

Sec. 1. To conduct, manage and control the affairs of the Corporation.

Sec. 2. To appoint and remove at pleasure, all officers, agents and employees and to prescribe their duties and fix their compensation.

Sec. 3. To make and enter into any and all agreements incident to or necessary in the operation of this Corporation for the ginning of cotton, or otherwise.

Sec. 4. To select one or more banks to act as depository of funds of the Corporation and to determine the manner of receiving, depositing and disbursing such funds.

Article IV

Officers

The officers of the Corporation shall be a President, a Vice President and a Secretary and Treasurer.

The Secretary and Treasurer may be one and the same person.

The Board, subject to the consent and approval of a majority of the shareholders, may employ any and all persons necessary in the operation and conduct of this Corporation, and to prescribe their duties and fix their compensation, as well as the compensation of all officers.

Article V

Duties of the President

If at any time the President shall be unable to act, the Vice President shall take his place and perform his duties and if the Vice President shall be unable to act, the Board shall appoint a director to do so. The duty of such officer shall be:—

1. To preside over all meetings of stockholders and directors.
2. To call the directors together when necessary, and upon written request of a majority of shareholders or three directors, call special meeting of the Board.
3. To sign as President all certificates of stock, contracts, notes and other instruments when so directed by the Board of Directors.

Article VI

Duties of the Secretary-Treasurer

It shall be the duty of the Secretary:—

1. To keep a record of the proceedings of the meetings of the Board of Directors and the Stockholders.

2. To keep the corporate seal and book of stock certificates; fill up and countersign such certificates issued and affix the seal thereon to all papers requiring the seal.

3. To receive and deposit all funds of the Corporation to be paid out only on checks drawn as may be prescribed by the Board.

4. To furnish a bond in such form and amount as the Board may determine.

5. To sign any and all contracts and documents as Secretary, as directed by the Board of Directors.

It shall be the duty of the Treasurer:—

1. To take general charge of such funds of the Corporation as directed by the Board of Directors.

2. The Board of Directors shall cause the books and records of the Association to be audited annually and present a report thereof at the Annual Meeting of the Stockholders.

Article VII

Stockholders

Sec. 1. In consideration of the advancement and guarantee of all money for the capitalization and organizing services by the Texas Farm Bureau Cotton Association, and the further fact that said Cotton Association has the control and delivery of large quanties of cotton which will be of great benefit in a business way to the Farm Bureau Gin Company, a corporation, the rights, privileges and benefits enumerated in the following sections of this Article, as well as in Article "X" of these By-laws are herewith granted to the said Texas Farm Bureau Cotton Association:—

Sec. 2. The Stockholders of this Corporation shall be confined and limited to the members of the Texas Farm Bureau Cotton Association, during its life and its successors, in interest as well as during suspended periods of said Association, or when it is not issuing or operating under the Standard Marketing Contract.

Sec. 3. The Corporation reserves the right to buy any shares of stock at par under any of the following conditions to-wit:—

a. Where any shareholder ceases to be a bona fide member and/or who has not signed the current Standard Marketing Contract of the Texas Farm Bureau Cotton Association.
b. Where any shareholder has more than one share of stock; provided, however, in such event the shares purchased shall be sold and transferred to the new stockholders.
c. Where a shareholder dies.

Sec. 4. All shares of stock must be registered on the books of this Corporation before being issued and the purchaser, by accepting thereof, agrees to all of the By-laws and Rules of the Corporation, including also all amendments that may be legally adopted.

Sec. 5. No shares can be transferred until all claims of this Corporation against the owner shall have been paid. If any stockholder of the Corporation desires to dispose of his share or shares of stock, he must offer same to the Corporation at not to exceed its par value. If the Corporation declines to purchase the stock, the seller may find a purchaser acceptable to the Corporation and have same transferred to said purchaser on the books of the Corporation in accordance with the Rules and By-laws. If a stockholder moves from the territory or community where the property of this Corporation is situated, and establishes residence elsewhere, the Board of Directors may purchase the share or shares owned by him not to exceed its par value.

Sec. 6. Sections "2," "3" and "4" of this Article shall be printed on each and every Certificate issued by the Corporation.

Sec. 7. Each share of stock shall be entitled to one vote only.

Article VIII

Meeting of Stockholders

Sec. 1. The regular Annual Meeting of Stockholders shall be held at the office of the Corporation on the ..... each year for the purpose of electing a Board of Directors and

transacting such other business as may come before the meeting.

Special meetings of the stockholders may be called at any time by the President or one third of the stockholders.

Sec. 2. Notice of regular and special meetings shall be given as prescribed by the Board of Directors five days before such meeting, stating the purpose thereof.

Sec. 3. At any meeting, a majority of the stockholders present in person or represented by proxy, representing a majority of shares of stock, shall constitute a quorum for all purposes. Each share of stock shall have one vote.

Article IX

Seal

This Association shall have a seal which shall contain these words and figures: "FARM BUREAU GIN COMPANY, ..., TEXAS, INCORPORATED IN 192..," in circular form.

Article X

Dividends

Sec. 1. The directors shall, after paying all debts, operating expenses, taxes and setting aside a sufficient amount of money for depreciation, repairs and betterments, disburse the remainder of the earnings as follows:—

a. Dividends on the paid-up capital stock not to exceed eight (8%) per cent per annum,

b. Sixty (60%) per cent of the remainder of said proceeds and earnings shall be paid to the stockholders on a per bale basis, and the remaining forty (40%) per cent of said earnings realized by said members and stockholders should be turned back by this Corporation to the Texas Farm Bureau Cotton Association by reason of the services done this Corporation by *all* members of said Cotton Association through the advancing of money by said Association for organiza-

tion purposes and rendering various organizing and operating services so rendered, the said forty (40%) per cent of said earnings and moneys shall belong to the entire Association and shall be utilized by the entire Association in carrying out activities beneficial to and for the entire Association.

Article XI

Amendment

These By-laws may be altered or amended at any annual or special meeting of the stockholders, representing a majority of the stock of the Corporation present and voting, or represented by proxy. No amendment or change to these By-laws shall be made by the Board of Directors.

Certificate of Directors as to Adoption of By-laws

WE, the undersigned, constituting all of the members of the Board of Directors of the FARM BUREAU GIN COMPANY OF ....., TEXAS, a corporation, do hereby certify that the above and foregoing By-laws were duly adopted as the By-laws of said Corporation on the ..... day of ....., 192..; and that such By-laws do now constitute the official By-laws of said Corporation.

IN WITNESS WHEREOF, We have hereunto subscribed our names this ..... day of ....., 192...

.....

.....

.....

.....

.....

(These By-laws must be signed by all the Directors.)

ARTICLES OF INCORPORATION
of
FARM BUREAU GIN COMPANY OF ....., TEXAS

WE, the undersigned, all of whom are residents and citizens of the State of Texas, do hereby associate ourselves together for the purpose of forming a ginning and storage corporation under the laws of the State of Texas.

I.

The name of this Corporation shall be FARM BUREAU GIN COMPANY OF ....., TEXAS.

II.

The purpose for which the FARM BUREAU GIN COMPANY OF ....., TEXAS, is formed, is to construct, purchase and maintain a gin and a warehouse in connection therewith.

The operations and activities of this Corporation shall be limited to the ginning of cotton; but shall do each and everything incident to, necessary, suitable or proper and which may at any time appear conducive or expedient for the interest and benefit of this Corporation, including the warehousing of cotton, cotton seed and cotton seed products.

III.

The principal place of business of this Corporation shall be at ....., County of ....., Texas.

IV.

The term for which this Corporation shall exist is fifty (50) years from and after date of incorporation.

V.

The affairs of this Corporation shall be managed and controlled by a Board of Directors; and the names and addresses of the directors, all of whom have subscribed and paid for

one share of capital stock, and who will serve the first year, or until their successors are elected and qualified, are:

NAME	ADDRESS
.....	.....
.....	.....
.....	.....
.....	.....

VI.

The capital stock of this Corporation shall be ..... ($....) Dollars, and divided into ..... shares of $100 each.

The capital stock of the Corporation shall receive such dividends up to, but not exceeding 8% per annum, as the directors may legally and properly declare.

The earnings of this Corporation shall be limited to an amount necessary and sufficient to pay such dividends as may be declared by the directors, up to 8% per annum, and to create reserves, sinking funds, etc., for the purpose of defraying all operating expenses, taxes, repairs and other necessary expenses and betterments; and any excess out of the operations of this Corporation shall belong and be distributed to the stockholders, patrons of this Corporation only, in accordance with their use of the properties hereof. The operation of this Corporation shall thus be conducted on a non-profit basis.

IN TESTIMONY WHEREOF, witness our signatures this ..... day of ....., A. D., 192...

.....	.....
.....	.....
.....	.....
.....	.....
.....	.....

(Charter must be signed by at least three persons; all directors need not sign.)

STATE OF TEXAS
COUNTY OF .....

BEFORE ME, the undersigned authority, a Notary Public in and for ..... County, Texas, on this day personally appeared

.....

.....

.....

.....

known to me to be the persons who executed the charter of the FARM BUREAU GIN COMPANY OF ....., TEXAS and acknowledged to me that they had executed the same as their free and voluntary act, and for the purposes and considerations therein set forth.

WITNESS my hand and seal of office this ..... day of ..... A. D., 192...

.....

NOTARY PUBLIC.....
COUNTY, TEXAS

(SEAL)

INDEX

Advances to members, difficulties of making, first year, 140-141; dangers to Association of too liberal policy, 177-180; influence of banks on, 182.
American Cotton Association, organization of, 44-45; first Montgomery Convention, 45-69; Committee on Coöperative Marketing, 69-74; second Montgomery Convention, 73-74.
American Cotton Growers Exchange, provision for in the Sapiro Plan, 59-62; organization and work of, 242-248; constitution of, Appendix E.
Articles of Incorporation of Association, analysis of, 101; copy of, Appendix D.
Association Agreement, The, analysis of, 79-84; copy of, Appendix A.

Board of Directors, functions of, 94-96; personnel of first, 129-131.
Buyers Call, definition of, 146; device for employing, 198.
Buyers, cotton, types of, 4-5; of Association cotton during first year, 147.
By-laws of the Association, analysis of, 94-100; copy of, Appendix C.

Capper-Volstead Act, analysis of, 104-105.
"City Crop", definition of, 203; amount realized from, by the Association, 202-203.
Classing, difficulties of, first year, 143-144.
Contract, or Marketing Agreement, necessity for, 51-52; difference of opinion concerning, 70-71; analysis of the Association, 84-94; copy of, Appendix B; violations of, during first year, 148; violations of, during first six years, 163; the New Contract (1927), 163; legality of, 220-221; cases involving, 220-236; legality of sanctions provided in, 221-223; in relation to landlord's lien, 223-227.
Control, amount of product necessary for adequate market, Sapiro Plan, 51; monopoly power of, 64; provisions of Association Agreement concerning, 83-84.
Control, corporate, provisions of Sapiro Plan on, 53-54, 55-56; difficulties of providing for, 237-238; devices for, 238-242; effect of American Cotton Growers Exchange upon, 242-248.
Cotton, grades of, Universal Standards Act, 6; handled by the Association during first six years, 204.
"Country Damage", definition of 202; amount saved by the Association on, 202.
Credit, marketing, see Finance.
Credit, membership, see Finance.
Credit, production, see Finance.

Direct Sales, difficulties of, 145-46; during past five years, 196-99.

Directors, see Board of.
Distributions to members, policy during first year, 140-142; difficulties of, during past six years, 177-180.
Dugger Plan, The, 70-71.

Exchange, American Cotton Growers, see American Cotton Growers Exchange.
Expenses of the Association, methods of providing for, 87-90.

Farm Bureau Federation, Texas, organization of, 76-77; assumption of leadership by, 77; planning of coöperative cotton marketing agency by, 78-79; in organization campaign of Association, 102-128.
Farm Bureau News, The, work in organization campaign, 107.
Federal Land Bank, Houston, Texas, work in organization campaign, 103.
Felsenthal Plan, The, 70-71.
Field Service of the Association, The, in organization campaign, 107-116; definition of, 150; development of functions of, 150-170; increasing cost of, 152; reorganization of, 153; The Standard Plan for, 156; in the re-sign-up campaign, 157-162.
Finance, problems of new organization concerning, 138-140; problems in organization campaign, 171-172; problems of, in overhead organization, 172-175; marketing credit, 176-184; membership credit, 184-193.
Finance Corporation, Texas Cotton Growers, 186-193.
Freight rates, see Traffic Department.
"Fundamental Principles", Sapiro's, 48.

Ginning, cost of under commercial system, 3.
Gins, Association, provisions for, in Association Agreement, 81-83; advantages to cooperative of, 208-210; development of program for, 210-211.
Gins, commercial, misfit in coöperative pattern, 208.
Grading, provisions of Contract concerning, 86-87; difficulties of, first year, 143-144.

"Half and Half", description of, 37.
Hays, M. E., work as Director of Field Service, 155-170.

Income of cotton farmers, of typical cotton counties, 1920-1921. 44; irregularity of, 251-256; devices for stabilization and improvement of:
laissez faire, 258-259;
cheaper credit, 260-261;
technical improvement, 261;
uniform-type cotton communities, 261-262;
the coöperative scheme, 263-276.
Insurance, reduction in costs of, 200-202.
Intermediate Credits Banks, The, creation of, 105; loans to the Association, 184; loans to the Finance Corporation by, 192-193.

Jordan, Colonel Harvey, 45; plan for cotton coöperative, 70-71

Law, Coöperative Marketing, of Texas, 102; the Capper-Volstead Act, 104-105.
Locals, or community organizations, provisions for, in Association Agreement, 80; methods of financing, 168.

Marketing Agreement, see Contract.
Marketing, Orderly, see Orderly Marketing.
Membership, qualifications for, according to Sapiro Plan, 50; qualifications for, according to Association By-Laws, 97; fee of, 97-98; property rights of, 98-99; expulsion from, 99; meetings of, 99-100.
Mortgaged cotton, method of handling, 90-91.
Moser, C. O., as Secretary of the Texas Farm Bureau Federation, 77-78.
Murph, D. S., Chairman of Committee on Coöperative Marketing, American Cotton Association, 70-74.
McKay, L. F., Director of Field Service, American Cotton Growers Exchange, 154-156.

Official Staff, difficulties of selection of, 131-133; personnel of first, 134.
Orderly Marketing, difficulties of, 215-216; as practiced by the Association, 217; results of, 218.
Orr, John T., work in organization of Texas Farm Bureau Federation, 76-78; work in organization of Texas Farm Bureau Cotton Association, 126-127; work during first year, 143-144.

Pearse, Arno S., approval of work of Association, 197-198.
Pittuck, B. C., work as Manager of the Finance Corporation, 191.
Pooling, devices of Sapiro Plan, 50; system provided in Contract, 86; changes in New Contract concerning, 212-215.
Prices, Cotton, under Traditional System, 1-42; Coöperators promises concerning 117-126; coöperative devices for influencing, 195-196.

Rates, freight, see Traffic Department.

Sales, difficulties first year, 144-149; see Direct Sales.
Sapiro, Aaron, invitation to Montgomery Convention, 45; first meeting with cotton men, 45; description of, 46-49; "Fundamental Principles" of, 48; the "Sapiro Plan", 49-69; work in Texas organization, 111-112.
Seaboard National Bank Syndicate, loan contract with Association, 181-184; amounts of acceptances provided each year by, 183.
Stapling, see Classing.

Traffic Department, organization of, 205; recovery of excess charges by, 205; influence on freight rates by, 205-208.

United Cotton Growers of America, consolidation with the Texas Farm Bureau Cotton Association, 77.

Walton, T. O., work in organization campaign, 115-116.
Wannamaker, John S., President American Cotton Association, 49.
Warehousing, provisions for, by subsidiary corporations, 81-83; policy during first year, 143; improvements in, 201-203.
War Finance Corporation, The, functions of, 105; significance of, to the Association, 139-140.
Williams, Carl, coöperative plan of, 70-71.

UNIVERSITY COLLEGE
NOTTINGHAM